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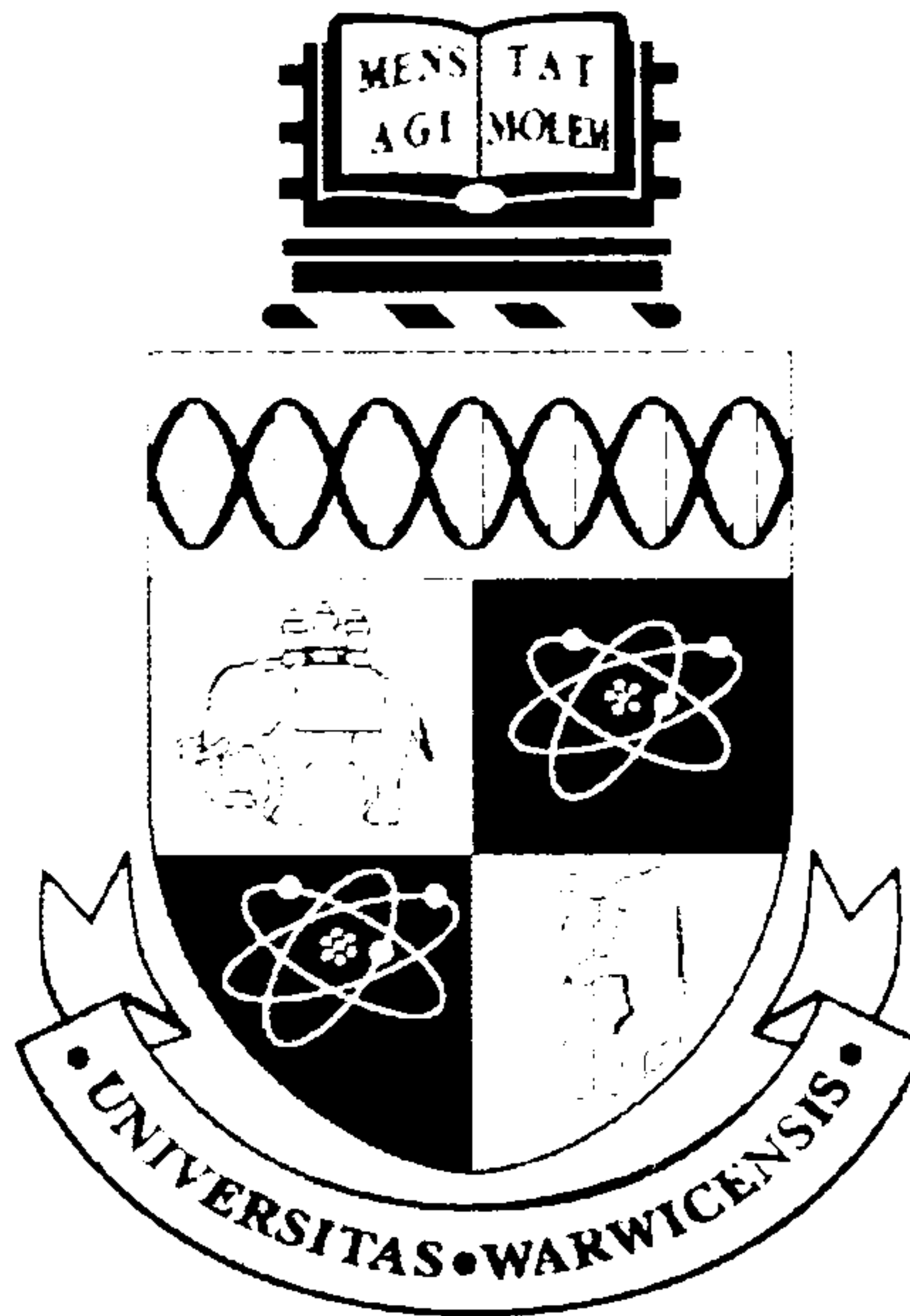
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Transfer and Institutionalisation of Corporate Governance Practices: Asia-Pacific Subsidiaries and Joint Ventures of United Kingdom Listed Multinational Companies

by

Derek Condon MBA MA BA

A thesis submitted in fulfilment of the requirements
for the Degree of Doctor of Philosophy

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ICAEW	Institute of Chartered Accountants in England and Wales
LSE	London Stock Exchange
MNE	Multinational Enterprise
NUS	National University of Singapore
OECD	Organisation for Economic Co-operation and Development
RBSIC	Risk based system of internal control that follows the recommendations contained in the Turnbull guidelines
UK	United Kingdom
USA	United States of America

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DECLARATION

This is to declare that:

- I am responsible for the work submitted in this thesis.
- This work has been written by me.
- All verbatim extracts have been distinguished and the sources specifically acknowledged.
- During the preparation of this thesis a number of papers were prepared as listed below. The remaining parts of the thesis are unpublished.

Publications:

Condon, D. C. 2005. Strategy and Corporate Governance. In McGee, J., Thomas, H. and Wilson, D., *Strategy: Analysis and Practice*. p. 629 – 665. Maidenhead: McGraw-Hill Education.

Condon, D. C. and Wilson, D. 2006. Crafting Strategy Transfer: Asia-Pacific Subsidiaries and Joint Ventures of a UK Listed Company. *Long Range Planning* (Submitted under review)

Conference Papers:

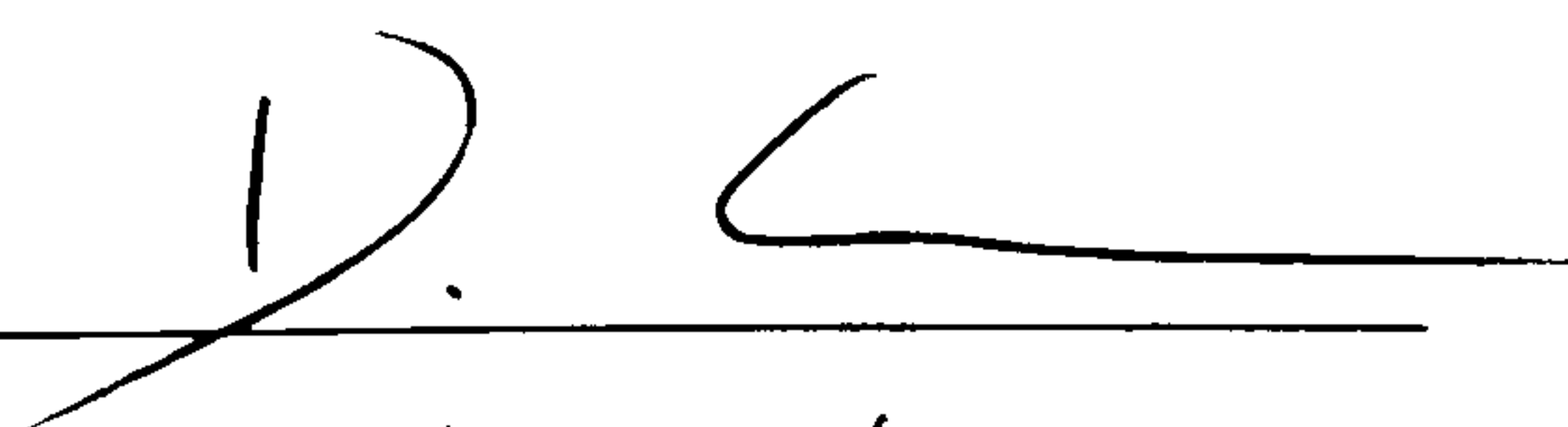
British Academy of Management (September, 2005)

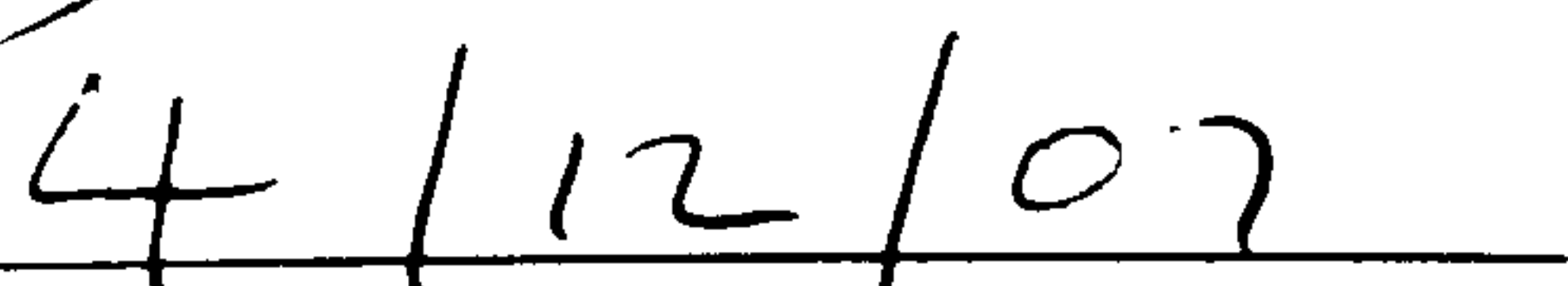
Social Context and the Transfer of Corporate Governance Practices to the Asia-Pacific Subsidiaries and Joint Ventures of a UK Listed Companies

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Social Context and the Transfer of Corporate Governance Practices

- This work has not been previously submitted within a degree programme at this or any other institution.

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ABSTRACT

This research considers the transfer and institutionalisation of a corporate governance practice to the Asia-Pacific subsidiaries and joint ventures of two UK listed MNEs. The practice under consideration is a risk based system of internal control (RBSIC) that follows the recommendations made in *Internal Control: Guidance for Directors on the Combined Code* more generally known as the Turnbull Report or guidelines. The Turnbull Report provides guidance for directors on how a company should 'maintain a sound system of internal control to safeguard shareholders' investment and the company's assets' a recommendation of the UK Combined Code on Corporate Governance. The extent of a transfer is defined as the degree of *institutionalisation* at the recipient unit. *Institutionalisation* is the process by which a practice achieves a taken-for-granted status and becomes embedded in the recipient unit's management and governance processes.

The main contributions of this research are three-fold. Specifically they focus on corporate governance practices below board level; the transfer of corporate governance practices across international borders; and the role of managerial agency as a key influence over institutionalisation.

Through the combination of semi-structured interviews, documentation provided by the companies and secondary sources including academic papers, books and news services two case studies were developed – one main case study, consisting of eight embedded case studies – Excelsior; and a supporting case study consisting of two embedded case studies – Landmark.

Three key themes emerged from this study: First, although the degree of institutionalisation of the RBSIC differed across cases, the overarching picture was one of ceremonial adoption that had been achieved without the relatively high level of implementation proposed by Kostova and Roth (2002).

Secondly, the successful institutionalisation of the RBSIC resides primarily in the individual employees at the recipient business unit. However, the transfer is embedded inside a specific national context that to differing degrees, depending on the differences between the source of the RBSIC and the individual recipient business units, interacts with three practice specific sub-variables – *causal ambiguity*, *practice specific absorptive capacity* and *motivation of the practice recipient*.

Thirdly, due to over reliance on the regional RBSIC team responsible for the institutionalisation of the practice, their role as gatekeeper, standing between the source of the knowledge (corporate headquarters) and the recipient (Asia-Pacific business units), was unexpectedly a barrier to the development and institutionalisation of the practice.

CHAPTER 1

INTRODUCTION

In an interview given to the Financial Times (12/06/06) Sam Palmisano, Chairman of the Board and Chief Executive Officer of IBM, described the modern company as a:

“globally integrated enterprise, which spreads its strategies, production capacity and management around the world in order to be close to markets and customers, that is an inherently better and more profitable way to organise business activities – that can deliver enormous economic benefits to both developed and developing nations”.

Multinational enterprises (MNEs) operate in multiple countries, exposing them to cultural, institutional and economic heterogeneity (Zellmer-Bruhn and Gibson, 2006: 501). The ability to effectively transfer knowledge and practices across borders is a key characteristic of the successful MNE (Bartlett and Ghoshal, 1997; Nohria and Ghoshal, 1997; Gupta and Govindrajana, 2000). This is especially important if successful transfer is believed to be critical for the competitive advantage of the firm (Kostova, 1999: 321).

More than at any time in the past the growing pressures on MNEs to fully integrate global operations places a greater strain on a company’s ability to manage its business and ensure that the corporate governance standards required by its local listing authorities are achieved. Internal control, comprising the integrated collection of policies, procedures, processes, plans, strategies, functions, systems, initiatives, activities, and other actions undertaken by management to achieve business objectives

(Root, 1998: 161), will play an increasingly important role as companies seek to understand their operating environment and maximise the opportunities available, thereby increasing returns to their owners. This research considers the transfer of a strategic organisational practice – a risk based system of internal control that follows the recommendations contained in the Turnbull guidelines, from now on referred to as the RBSIC – from two United Kingdom (UK) listed companies to their Asia-Pacific subsidiaries and joint ventures.

The Turnbull guidelines, more formally known as *Internal Control: Guidance for Directors on the Combined Code*, provide guidance for directors of companies to implement the principle contained in *The Combined Code on Corporate Governance* (1998, 2003) that states:

‘The board should maintain a sound system of internal control to safeguard shareholders’ investments and the company’s assets’. (Combined Code, 1998: Section 1, D.2; 2003: Section 1, C.2)

UK companies are required to comply with the provisions and principles of the Combined Code or explain why they have failed to do so. The Turnbull guidelines are about the adoption of a risk-based approach to establishing a system of internal control that should be incorporated by the company within its normal management and governance processes and be embedded in the operations of the company forming part of its culture (Turnbull, 1999, para. 22). Companies are required to disclose in their annual report that they have in place an ongoing system for identifying,

evaluating and managing significant risks faced by the company. If such a system is not in place they are required to explain why this is the case.

The value of corporate governance practices are frequently questioned during periods of economic expansion as companies and shareholders concentrate on wealth generation rather than ensuring governance mechanisms are working appropriately for the retention of wealth, and its use for agreed purposes (Clarke, 2004(a): 153).

During these times companies and investors become complacent about corporate governance. Corporate governance mechanism are frequently regarded as unnecessary 'red-tape' reducing a company's ability to act quickly as well as being costly both financially and in time spent. However, at times of economic contraction and, especially corporate collapse, pressure frequently builds up for a re-evaluation of the viability of the regulatory system. This has led to the tendency for interest in corporate governance issues to be cyclical (Clarke, 2004(a): 153). The Asian Development Bank (ADB) (2000: 3) noted that during the years of high growth that had proceeded the 1997 Asian economic crisis investors appeared to pay *"inadequate attention to corporate governance as long as investments were profitable and the return on investment adequate"* and *"cared little about the excessive long-term risks that some projects were exposed to."* However, failures in corporate governance, resulting in tens of billions of pounds worth of losses to shareholders, commencing with the Asian economic crisis of 1997, followed by the high profile collapses in the United States that included Enron, WorldCom, Tyco and Global Crossing and the later failures of corporate governance in Europe that included Parmalat and Shell have once again seen a resurgence of interest in corporate governance, especially the importance of managing and identifying risk effectively. This was apparent during

the recent contentious acquisition of Arcelor by Mittal Steel when the Financial Times (27/4/06) questioned the quality of Mittal's corporate governance across all of its subsidiaries asking whether sufficient protection for investors existed. During the takeover 'boom' of the 1990s it is debatable whether such a question would have arisen.

Corporate governance mechanisms, including the RBSIC, involve costs to companies and their owners. Sometimes this cost can be very high as shown by the introduction of the Sarbanes-Oxley Act in the United States following the Enron collapse. The value of this expenditure is often hard to quantify. Whereas it is possible to calculate the value of preventing a building collapse it is much more difficult to evaluate the benefit of changing employee behaviour. Therefore it is not surprising that some owners and managers believe that corporate governance places more of a burden than a potential gain upon a company and the 'market' is the best regulator of a company and its managers' behaviour. They argue that the market will reward well managed companies and punish poor ones through the allocation of resources and that this is the most effective form of regulation. Although, the intellectual strength of this argument is easily appreciated it is perhaps more difficult to convince Enron investors who lost \$80 billion when the company collapsed.

An obvious theoretical model supporting such a 'Darwinistic' view is the *population ecology* view promoted most strongly by (amongst others) Hannan and Freeman (1977; 1989). From this perspective, governance matters less than an organisation surviving the pressures of a demanding environment. 'Weaker' organisations fail to survive and the demanding environment leads to their demise. In a purely

deterministic way, these organisations go out of business. However, the population ecology view and its highly deterministic paradigm are not without their critics who argue for a more voluntaristic perspective – most pertinently one in which governance can be seen to make a difference to organisational survival and growth (see Usher and Evans, 1996 for one example). The demise of an organisation may be a voluntaristic ‘strategic choice’ (Child, 1972) on the part of headquarters about a subsidiary. In this respect, the fate of the subsidiary is less a function of the environmental determinism and more a voluntaristic action of governance from headquarters. This study eschews a paradigm of overly-deterministic environments and embraces a voluntaristic perspective in which governance structures and processes are argued to make a difference to the effectiveness and survival of all parts of the organisation. More recently, the collapse of firms such as Enron has been argued in large part to be a function of irresponsible governance rather than environmental determinism (Child and Rodrigues, 2004: 148; Clarke, 2004(a): 158). In doing so this thesis acknowledges that successful risk management involves the balancing of the cost of risk management against the potential cost of the risk, the short-term cost against the long-term cost (Blackburn, 2000: 9).

If governance is such a central feature of organisational performance and survival, then MNEs will strive to ensure its effective transfer throughout the organisation. Therefore, this research considers the transfer and institutionalisation of corporate governance practices to the Asia-Pacific subsidiaries and joint ventures of UK listed MNEs. The term transfer is used to emphasise that the movement of knowledge within the organisation is a distinct experience, not a gradual process of dissemination (Szulanski, 1996: 28). In other words the transfer is an event it is not transmitted in

an ‘ad-hoc’ fashion over an unspecified period of time. The extent of a transfer, consistent with the institutional perspective proposed by Kostova (1999: 311), is defined as the degree of *institutionalisation* at the recipient unit.

This study looks at one key aspect of governance transfer, namely a RBSIC.

Although, RBSICs represent a substantial part of corporate governance practices, they are by no means the whole story of governance. RBSIC was chosen as the vehicle for this study because it focuses on two contestable concepts – risk and control. These concepts are not only open to debate in single countries, but also their transfer is likely to prove (to varying degrees) difficult, since effective transfer depends upon common conceptions and practices across business units in different countries.

For example, conceptions of risk vary widely (March and Shapira, 1987: 1,405), with numerous definitions offered ranging from Knight’s (1921) description of risk as “*objectively predictable variances in accounting-based performance variables*”; Miller (1992: 312) who refers to risk as “*unpredictability in corporate outcome variables*”; Ghoshal (1987: 430) who ‘collapsed’ risks into four broad categories – macroeconomic, policy risks, competitive risks and resource risks; and the all encompassing view of risks included in the Turnbull guidelines (Appendix, para. 1) – “*significant internal and external operational, financial, compliance and other risks*”.¹

¹ Significant risks may, for example, include those related to market, credit, liquidity, technological, legal, health, safety and environmental, reputation, and business probity issues (Turnbull, 1999, Appendix, para. 1)

Similarly, the notion of control across MNEs has been variously described by many authors (e.g. Doz and Prahalad, 1981; Child, 1984; Hedlund, 1986; Bartlett and Ghoshal, 1989; Gupta and Govandarajan, 2000; O'Donnell, 2000; Whittington and Mayer, 2000). Child (1984: 136) described it as a process whereby management and other groups are able to initiate and regulate the conduct of activities so that their results accord with the goals and expectations held by management. Control can be through hierarchical governance (Chandler, 1962; Williamson, 1971, 1975, 1981) with an emphasis on bureaucratic mechanisms ranging to normative social control (Bartlett and Ghoshal, 1993, 1995; Nohria and Ghoshal, 1994) that stresses the internalisation of shared values (developing a 'common world view' (Prahalad and Doz, 1987)) that reduce the likelihood of opportunistic behaviour, and the need for monitoring and explicit rules. Most companies are likely to have control mechanisms that combine both of these characteristics (Child, 1984: 163; Gooderham and Ulset, 2002).

Of interest, therefore, in this study is to what extent these notions might be transferred internationally and implemented in some standardised form. Given the highly contextually specific underpinnings of each, it is likely that transfer will be difficult in a MNE which operates subsidiaries in many different countries each with its own cultural and philosophical context. Corporate Governance in the Asia-Pacific region, with the exception of Australia, was identified by the ADB (2000:3) as one of the main factors behind the 1997 Asian economic crisis. More recent work by the OECD (2003) suggests that the current status of disclosure and transparency leaves much to be desired: the framework itself is improving in most countries in Asia but implementation remains a key challenge (Lassere and Schütte, 2005: 185). From this

perspective, it might be argued that there will be an inevitable bias towards non-acceptance. Yet this would present an overly simplistic view. Not only do managers have strategic choice (Child, 1972) beyond determinism, they also face the intense pressure towards standardisation from headquarters which will act as a forceful countervailing power against contextually shaped voluntarism (Leavy and Wilson, 1994). It is this contested terrain between voluntarism and determinism that the current study explores. Such studies are relatively rare in the academic literature, providing a *raison d'être* for this research. Drawing on the above conceptual discussion, four research questions form the focus of this study:

1. To what extent has a risk based system of internal control that follows the recommendations contained in the Turnbull guidelines been institutionalised in the Asia-Pacific based subsidiaries and joint ventures of two UK listed companies?
2. What are the main difficulties, if any, encountered during the transfer of the practice?
3. If so, what are the key variables influencing the successful transfer of the practice?
4. What are the practical implications of this research?

This thesis consists of twelve chapters and an appendix. Following Chapter 1, the introduction, Chapter 2 defines corporate governance before discussing agency theory the principle theoretical framework that underlies the UK's Combined Code of

Corporate Governance. This is followed by a description of the recent development of UK corporate governance and an explanation of the role of the Turnbull guidelines, a review of the major differences in the corporate governance environment of the UK and the other countries included in this study, and the arguments for and against the convergence of national corporate governance systems. It concludes with a discussion on how a national corporate governance system can influence the treatment of risk.

Chapter 3 develops the theoretical framework underlying this research and reviews the relevant literature and how it relates to the key questions under consideration.

Chapter 4 details the scope of the research and introduces the philosophical underpinnings, methods, processes and data collection techniques used during this investigation. The remainder of the chapter describes the research process and the experiences of the researcher.

Chapter 5 introduces the two main research subjects - Excelsior and Landmark and the ten embedded case studies developed from the data gathered at both companies. The chapter is divided into two parts -- one for each company. Each begins with a brief description of the company, followed by a review of the operation of the RBSIC. It then goes on to describe the individual Asia-Pacific business units involved in the study and their respective operation of the RBSIC.

Chapter 6 provides a broad statement of the findings of this research, introduces the five factors that determine the degree of institutionalisation of the RBSIC and considers how they relate to the theoretical framework introduced in Chapter 3.

Chapters 7 to 11 analyse and discuss the five factors in the implementation, internalisation and institutionalisation of the RBSIC in the individual business units.

Chapter 12, the conclusion, summarises the research study and discusses both its main findings and contribution to the study of governance. Also discussed are the implications for practice, limitations of the study and suggestions for future research.

The appendix contains supporting documentation.

CORPORATE GOVERNANCE AND THE ROLE OF THE TURNBULL GUIDELINES

2.0.0 Introduction

This chapter will begin by defining corporate governance. It will then go on to discuss agency theory which is the principle theoretical framework that underlies the UK's Combined Code of Corporate Governance. This is followed by a description of the recent development of UK corporate governance, beginning with the publication of the Cadbury Report in 1992, which includes an explanation of the role of the Turnbull guidelines. The remainder of the chapter will review the major differences in the corporate governance environment of the UK and the other countries included in this study, consider the arguments for and against the convergence of national corporate governance systems and discuss how a national corporate governance system can influence the treatment of risk.

2.1.0 Corporate Governance

There is no single, accepted definition of corporate governance with definitions differing considerably from country to country. At its broadest level corporate governance is concerned with practices and procedures for trying to ensure that a company is run in such a way that it achieves its objectives (Coyle, 2004: 3). Given the international scope of this research it will adopt the definition of corporate

governance offered by the OECD in its updated *Principles of Corporate Governance*¹.

The OECD (OECD, 2004: 11 - 14) identified corporate governance as one of the key elements in improving economic efficiency and growth as well as enhancing investor confidence. While acknowledging there is no single model of good corporate governance it described corporate governance as:

“... involving a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.”

The *Principles of Corporate Governance* goes on to say that:

“Corporate governance is only part of the larger economic context in which firms operate that includes, for example, macroeconomic policies and the degree of competition in product and factor markets. The corporate governance framework also depends on the legal, regulatory, and institutional environment. In addition, factors such as business ethics and corporate awareness of the environmental and societal

¹ The Principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance (OECD, 2004 :11). Since the Principles were first agreed in 1999, they have formed the basis for corporate governance initiatives in both OECD and non-OECD countries alike. (OECD, 2004 :9)

interests of the communities in which a company operates can also have an impact on its reputation and its long-term success.”

2.2.0 Agency Theory

Agency theory underpins much of the UK Combined Code of Corporate Governance (Roberts et al, 2005: S7). The emergence of agency theory as the dominant analytical lens for the analysis of corporate governance is described below.

By the early part of the twentieth century, in both the UK and USA, it was becoming evident that as companies became larger ownership was becoming more fragmented and dispersed. Up until this time many of the largest companies were both owned and controlled by the same person. Increasingly a company's resources were insufficient to finance the owner's growth objectives for the company. To grow the company the owner could raise additional loan capital, normally from banks, and / or raise additional share capital, by selling new shares on the stock market. Given there is a limit to how much a company can borrow before it undermines its financial stability companies increasingly turned to the stock market reducing the relative shareholding the owner held in the company. This opening up of corporate ownership to the general public through share ownership led to an increasing separation of ownership and control as the number of shareholders in a company, who did not participate in its management and instead delegated the running of the company to the company's management, steadily grew.

This led to what has become known as the ‘agency problem’ and the development of agency theory in corporate governance.²

The twentieth century debate on corporate governance is often said to have begun with the work of Berle and Means (1932) who were the first to explore the structural and strategic implications of the growing separation of power between the executive management of major public companies in the USA³ and their increasingly diverse and remote shareholders (Cadbury, 2002: 5; Clarke, 2004 (a): 154; Condon, 2005: 635). The principal-agent model which has played a crucial role in corporate governance theorising over the second half of the twentieth century is underpinned by agency theory.

The principal-agent model assumes that the sole purpose of the firm is to maximise shareholder value (Kirkbride & Letza, 2003: 464) and is concerned with the relationship between the principal, the shareholder, and the agent, the manager of the company, where the shareholder has engaged the manager to run the company on his / her behalf. Agency theory assumes that all social relations in economic interaction can be reduced to set of contracts between principals and agents. The firm is best described as a “nexus of contracts”, both explicit and implicit between the principal and agent and the behaviour of the firm is “the outcome of a complex equilibrium process” (Jensen and Meckling, 1976).

² It can be argued that the agency problem was initially identified by Adam Smith (1776) who noted that the directors in a joint stock company could not be expected to be as careful with other people’s money as they were with their own (Letza et al, 2004: 248).

³ Prias (1976) showed that a similar structure of ownership and control operated in the U.K.

Another key assumption of agency theory is that the goals of the principal and the agent conflict. The agency problem arises when agents make decisions that are not necessarily in the best interests of the principals. It is possible that managers may act in an opportunist fashion where they benefit from illegal actions such as the theft of company funds or act in a manner that emphasises short term objectives to the detriment of the long term interests of shareholders allowing them to receive rewards, such as bonuses or profits derived from the exercising of stock options, which are based on the short term performance of the company. Managers may also be tempted to supplement their salaries by awarding themselves generous perks such as expense accounts that permit costly non-essential expenditure, long holidays, inflated pension schemes and high termination payments. In addition they could act in a fashion designed to fulfil their egotistical needs at the expense of shareholders interests, for example, by expanding the company, and increasing their perceived importance, instead of increasing returns to the company's shareholders.

To ensure that shareholders and managers interests are aligned a mechanism needs to be put in place that will allow this to happen. Agency theory assumes that shareholders do not have sufficient control and influence over managerial actions because they are not involved with the company on a day-to day basis, this results in information asymmetry, as managers are better informed about the company than its shareholders. Shareholders can attempt to overcome this asymmetry by putting in place mechanisms that monitor the performance of managers. This can be costly especially if undertaken by individual shareholders. The overall cost to individual shareholders can be reduced if a system is put in place to monitor and provide information on the performance of managers to all shareholders.

Eisenhardt (1989) proposed that agency theory is concerned with resolving two problems that can occur in the principal-agent relationship. The first arises when the desires or the goals of the principal and agent conflict and it is difficult or expensive for the principal to monitor the performance of the agent thereby making it difficult for the principal to verify what the agent is actually doing; and the second arises when the principal and the agent have different attitudes to risk and may prefer different actions because of their different risk preferences. Based on assumptions about people (self-interest, bounded rationality, risk aversion), organisations (goal conflict among members) and information (a commodity that can be purchased) the focus of agency theory is on determining the most efficient contract to govern the principal-agent relationship. The choice is between a behaviour-orientated contract (e.g. salaries, hierarchical governance) or an outcome-orientated contract (commissions, bonuses, stock options, transfer of governance, market governance) (Eisenhardt, 1989 (a): 58)

Agency theory supposes that an effective board of directors, which is appointed by the shareholders, will identify with shareholders interests and be responsible for ensuring there is an adequate control framework for the company. This includes monitoring the performance of managers and putting in place the necessary mechanisms and contracts that will bring managers interests into line with shareholders. If they are to carry out their task effectively the company will need to be structured in a way that provides the board with the information that it needs to undertake its role.⁴ This is

⁴ Through the adoption of the Turnbull guidelines the directors of a company should be provided with information that will allow them to consider:

1. The nature and extent of the risks facing the company;
2. The extent and categories of risk which it regards as acceptable for the company to bear;
3. The likelihood of the risks concerned materializing;

achieved through the corporate governance system adopted by the company, which in addition to giving the directors the power to set the company's aims and objectives, and how they are to be achieved, enables them to use their experience in decision making and control to reduce any self-interested tendencies of corporate management through the adoption of what they determine to be the most efficient type of contract (behaviour or outcome-orientated) to govern the principal-agent relationship. In addition it provides the directors with the authority to question financial reports and information provided by managers, appoint senior management and determine their remuneration, and recommend new directors.

Particularly relevant to this research is the double / multiple agency problem. This occurs when the principal has to rely upon agents at more than one stage in the process between the expression of his or her interests and actions taken to realise those interests. The process of holding agents to account for the attainment of goals involves two or more sets of control relationships, reflecting the presence of agents at two or more main levels (Child, 2005: 360). In this research the first relationship is between the board of directors (representatives of the shareholders) and the MNE management and the second relationship is between the MNE management and the managers and employees of the individual Asia-Pacific business units. The double / multiple agency problem is present in all forms of organisation in which scale and complexity create a personal and often physical distance between top managers,

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4. The company's ability to reduce the incidence and impact on the business of risks that do materialize;
 5. The costs of operating particular controls relative to the benefit thereby obtained in managing the related risks.

(Turnbull, 1999: para. 17)

acting as principles, and their agents for implementation at lower levels (Child and Rodrigues, 2003: 341).

2.3.0 Corporate Governance in the United Kingdom

The development of modern UK corporate governance practice began with the Cadbury Report (1992) that came out of the work of *The Committee on the Financial Aspects of Corporate Governance*, that was established in 1991 following the collapse of Coloroll and Polly Peck, and chaired by Sir Adrian Cadbury. It reviewed the financial aspects of corporate governance and led to the publication of the Code of Best Practice⁵. This was followed by the Greenbury Report (1995) that reviewed directors' remuneration while the Hampel Committee on Corporate Governance (established in 1995 and reporting in 1998) had a broader remit that built on Cadbury and Greenbury picking up on any new issues that had arisen from both reports (Condon, 2005: 636).

Following the report of the Hampel Committee the first edition of the Combined Code was published by the London Stock Exchange (LSE) Committee on Corporate Governance and added as an appendix to the LSE Listing Rules. The code superseded all previous codes for UK listed companies and was derived from Cadbury, Greenbury, Hampel and the LSE's Listing Rules (Condon, 2005: 636).

Since the publication of the first edition of the Combined Code three other important reports have been published – the Turnbull Report that provides guidelines for

directors on how to meet the Code's provisions on internal control, the Smith Report, which relates to the provisions on audit committees and auditors, and the Higgs Report a review of the role and effectiveness of non-executive directors. The findings of these reports have been incorporated into a new edition of the Combined Code published in 2003.

Presently, following the lead given by the Code of Best Practice, the first corporate governance code of the modern era, corporate governance codes have been adopted by more than 50 countries (European Corporate Governance Institute http://www.ecgi.org/codes/all_codes.php).

2.3.1 Self Regulation

There are three layers of control over a company (Hoffmann, 1998). The first layer is the bedrock of duties owed by directors at common law and equity. The second layer imposes a number specific statutory duties intended to reinforce the duties at common law. The third layer specifies duties under the self-regulatory codes which are perceived by Hoffman as intending to reinforce common law duties in areas not thought suitable for legislation and emanate from the deficiencies of the proceeding layers. The objective of the three layers of regulation is to establish a system that protects shareholders but does not inhibit good management and enterprise. Self-regulated duties as outlined in the Combined Code have become more important in recent years (Kirkbride and Letza, 2003: 468).

⁵ Soon after the Committee began work the Bank of Credit and Commerce International (BCCI) and

The Code of Best Practice and the two editions of the Combined Code adopted a self and market regulation approach. Although the Combined Code is not legally enforceable it has been given force through the Listing Rules of the London Stock Exchange that require a listed company to report how it applies the principles in the code and either confirm that it complies with the Code's provisions or – where it does not – to provide an explanation (Combined Code on Corporate Governance, 2003: 1). This approach is known as *Comply or Explain* and has been in place since the Code of Best Practice (1992). If the reasons for failing to comply are not deemed as acceptable by the stock market it will be reflected in the company's stock price.

Nonstatutory regulations - codes of practice - have a number of advantages and disadvantages. Advantages include avoidance of burdensome regulation, flexibility to deal with new issues as they arise, freedom for a company to develop its own organisational practices, and the ability to promote compliance, not just within the letter of the law⁶, but with the intention behind it, thus setting a higher standard with the onus for improvement on investors (Cadbury, 2002: 28; Monks and Minow, 2004: 298).

The argument for codes of practice in the field of corporate governance is that important aspects of governance are not easily reduced to legally enforceable laws and often require qualitative judgements (Cadbury, 2002: 28). e.g. *All directors must take decisions objectively in the interests of the company* (Combined Code, Section 1, A.1, Supporting Principles). Codes can also be more effective than an equivalent law

Maxwell Communications also collapsed. As a result the Committee's Report and the Code of Best Practice covered a wider field than the title might suggest (Cadbury, 2002: 11)

⁶ This was described in Cadbury Report (1992: 12, para. 1.10) as encouraging companies to comply *in spirit rather than in letter*.

in achieving their purpose. Cadbury (2003: 28) gives the example of the Combined Code principle which addresses whether the posts of chairman and chief executive should be combined which states:

'There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.' (Combined Code, Section 1, A.2, Chairman and chief executive, Main Principle).

If it was a legal requirement that companies should have both a chairman and a chief executive, the intent of the law could be bypassed by appointing a cipher in one of the posts. The law would have been complied with while its purpose was not met. No follow up by shareholders would be possible as the response would be that the board had met its legal obligation. However, the codes reference to *'clear division of responsibilities'* enables shareholders and other interested parties to ask precisely how responsibilities are divided and ask as frequently as they believe is required.

Disadvantages of codes of practice include lack of precision and transparency, and uncertainty over enforcement (MCLR, 1998). This was acknowledged by Cadbury (1992: 1.10) who speculated that legislative and external regulation might be sought if the recommendations in the Code of Best Practice were not adopted on a wide scale.

2.3.2 The Turnbull Report

The first edition of the Combined Code (1998) contained the principle that:

'The board should maintain a sound system of internal control to safeguard shareholders' investments and the company's assets'. (Combined Code, 1998: Section 1, D.2)

Supported by a provision that recommends that:

'The directors should, at least annually, conduct a review of the effectiveness of the group's system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management'. (Combined Code, 1998: Section 1, D.2.1)⁷

However, companies were not provided with any guidance on how they should comply with this principle and provision. To rectify this deficiency the Institute of Chartered Accountants in England and Wales (ICAEW) agreed with the London Stock Exchange that it would provide guidance for directors of companies to implement the principle. The Turnbull Committee, under the Chairmanship of Nigel Turnbull, was established by the ICAEW to undertake this work. Compliance⁸ with

⁷ The principle D.2 and the provision D.2.1 both appears in the second edition of the Combined Code (2003) designated as Section 1, C.2 Internal Control, Main Principle and Section 1, C.2 Internal Control, Code Provision C.2.1 respectively.

⁸ The requirement to state in a company's annual report and accounts how they had applied the Principle and whether or not they had complied with its provisions.

the principle and provision was delayed pending the publication of the Turnbull guidance. The report titled *Internal Control: Guidance for Directors on the Combined Code* was published in September, 1999. It broke new ground as it was the first investigation into corporate governance in the UK where risk was explicitly included and articulated (Kirkbride and Letza, 2003: 474). On the same day that the report was published the company secretaries and finance directors of all UK listed companies were sent a letter informing them that companies were required to have all of the elements of a risk management and internal control monitoring system in place, and thus to have achieved a sound system of internal control, for accounting periods ending on or after 23 December, 2000 (Blackburn, 2000: 2). Companies were required to include a narrative statement of how the company has applied Code principle D.2 in their annual report. The board should, as a minimum, disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company, that it has been in place for the year under review and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the board and accords with the guidance in *Internal Control: Guidance for Directors on the Combined Code* (Turnbull, 1999, para. 35). If this had not been achieved, as is the case with all Combined Code principles and provisions, the board were required to explain why they had not complied with the Code.

The Turnbull guidelines are about the adoption of a risk-based approach to establishing a system of internal control and reviewing its effectiveness (ICAEW, 1999: 4). Internal Control should not be seen as a burden on business but a means to maximise opportunities and reduce losses (KPMG, 1999: 14). A risk based approach, by providing better information to decision-makers, can add value and create

competitive advantage, enable a company to achieve its business objectives, and safeguard the shareholders' investment and the company's assets. It can make a company more flexible and responsive to market fluctuations making it better able to satisfy customer's needs. It can also mark a shift away from always perceiving risk as a negative (Kirkbride and Letza, 2003: 476). Risk includes not only real or potential events which reduce the likelihood of achieving business objectives, but also, equally, the failure to take opportunities. Companies can gain an early mover advantage by adapting to new circumstances faster than their rivals, which could lead to competitive advantage in the medium and long term (ICAEW, 1999: 4). A risk based approach should supplement entrepreneurship, not replace it. Turnbull emphasises that the taking of risks is key to the generation of profits, and the purpose of internal control is to help manage and control risks not eliminate them (Turnbull, 1999, Para. 13). It also acknowledges that risk management and internal control are linked to the ability of companies to fulfil their objectives and increased shareholder value is the reward for successful risk-taking.

The basic aims of a sound system of internal control that encompass the policies, processes, tasks, behaviours and other aspects of a company are to:

1. Facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives.

2. Help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organization.
3. Help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

(Turnbull, 1999, para. 20)

The Turnbull guidelines state that while the board is responsible for the company's system of internal control it is the role of management to implement board policies on risk and control. The board should set appropriate policies on internal control and seek regular assurance that will enable it to satisfy itself that the system is functioning effectively (Turnbull, 1999, para. 16). It does this based on the information and assurances provided to it by management. The company's management is accountable to the board for monitoring the system of internal control and providing assurance to the board that it has done so (Turnbull, 1999, para. 25). In fulfilling its responsibilities, management design, operate and monitor a suitable system of internal control which implements the policies adopted by the board (Turnbull, 1999, para. 18). The system should identify and evaluate the risks faced by the company and apply appropriate risk control measures. Information relating to these risks, how they are being controlled and the effectiveness of the overall control system should filter up through the company, via senior management, for eventual consideration by the board.

The adoption of a system of internal control that follows the Turnbull recommendations should not be treated as a separate exercise undertaken to meet regulatory requirements (Turnbull, 1999, para. 9). It should be incorporated by the company within its normal management and governance processes and be embedded in the operations of the company forming part of its culture (Turnbull, 1999, para. 22). The guidelines state that although it is the role of management to implement board policies on risk all employees have some responsibility for internal control as part of their accountability for achieving objectives (Turnbull, 1999, para. 18 & 19). The likelihood of this occurring will be greatly increased through the institutionalisation of a Turnbull based system of internal control in a company. The guidelines also state that collectively, employees should have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal control (Turnbull, 1999, para. 19).

2.4.0 Corporate Governance Models

Given the scope of this thesis the purpose of this section is not intended to be a comprehensive review of the corporate governance systems that can be found in each of the countries where research was undertaken but to consider the important differences in corporate governance that can be found in these countries compared to the UK.

2.4.1 Two Types of Corporate Governance

The system of corporate governance in a country is determined by both internal and external factors. Internal factors include corporate ownership structure, the state of the economy, the legal system, government policies, culture and history. While external factors include the extent of capital inflows from abroad, the global economic climate and cross-border institutional investment (Solomon and Solomon, 2004: 147). Each system of corporate governance is unique to that country making it very difficult to categorise a country's corporate governance system. However, as corporate governance operates differently in two broadly distinct worlds (Buck and Shahrin, 2005: 42) a broad categorisation of corporate governance systems is possible using the 'insider/outsider' approach suggested by Short et al. (1998: 154) or the voice / market-exit approach proposed by Hirschman (1984: 89) and Nooteboom (1999: 846). Most systems of corporate governance fall somewhere between these two approaches sharing some of each others characteristics (Solomon and Solomon, 2004: 148).

The outsider / market-exit approach, often referred to as the Anglo-Saxon system of corporate governance, emphasises the rights of one group of stakeholders in a company - shareholders (outsiders) - and the mechanisms to maximise their investment in a company. The firm is conceived as a combination of managerial directors operating for the benefit of shareholders, or as an instrument for the creation of shareholder wealth (Weimer and Pape, 1999: 154). Manager's decisions can be influenced by shareholders adopting a 'market exit' approach. If shareholders are dissatisfied with the behaviour and performance of the company's managers they

could decide to sell or reduce their investment in the company thereby depressing the company's share price penalising managers whose rewards are determined in some way by the company's share price e.g. through stock options. In addition a reduction in the share price may leave the company vulnerable to a hostile⁹ takeover which could result in substantial job losses among the company's existing managers. This approach, which has been adopted in the UK, depends upon high levels of information disclosure by listed companies and laws¹⁰ that protect minority shareholders (La Porta et al., 2000). High levels of information allow investors to decide whether to buy or sell the shares of a company and provide them with the knowledge needed when they exercise their rights as shareholders e.g. voting at shareholders meetings. Protection of minority shareholders prevents expropriation of minority shareholders by the controlling shareholders.

The second approach – insider / voice - refers to the means by which any of the firm's stakeholders (not just shareholders) may control managers' decisions (Buck and Shahrim, 2005: 43). Managers are influenced mainly by the 'voice' of stakeholders (insiders) who are highly committed to the firm, closely connected and are prepared to contribute formally to its governance and not by potential or actual movements in share prices. In this alternative, relational world of governance, different groups of stakeholders may dominate in individual countries (Buck and Shahrim, 2005: 43).

They could be banks, other companies with cross-holdings in the company,

⁹ Takeovers are termed "hostile" when the management of the target firm opposes them (Franks and Mayer, 1990).

¹⁰ Relevant legislation includes the Companies Act 1985, the Financial Services and Markets Act 2000 (the FSMA) and the insider dealing provisions of the Criminal Justice Act 1993. UK and EU competition legislation and the UK Financial Services Authority's Listing, Prospectus and Disclosure Rules may also apply. The cornerstone of these regulations and a number of regulations governing substantial acquisition of a number of shares is that shareholders should be "fairly" treated (Weimer and Pape, 1999: 163).

controlling shareholders, customers and employees. This relational approach, which has been adopted by different degrees in the majority of the countries in this study, is characterised by low levels of transparency and information disclosure to outsiders and limited protection for minority shareholders. Given that shareholdings are generally concentrated in the hand of a small number of investors it is easier for a company to resist a hostile takeover attempt. It is also possible for managers to adopt a more relaxed approach to short term fluctuations in their company's stock price as it is less likely to play a role in their remuneration package and career advancement.

2.4.2 Corporate Governance in the Asia-Pacific Region

Using the broad categorises of corporate governance systems discussed above only Australia would be classified as adopting an outsider / market exit approach while the remaining companies tend to towards the insider / voice approach.

Australia's corporate governance standards are the closest to those found in the UK.

In March, 2003, it introduced a new code of governance called *Principles of Good Corporate Governance and Best Practice Recommendations*. The previous code was derived from the Bosch Report (1995) that closely followed the UK's Cadbury Report (1992) (Solomon and Solomon, 2004: 162).

Among the seven Asian countries in this study corporate governance standards are not as high¹¹ and differ considerably from the UK system on a country by country basis.

¹¹ A 2005 survey 'CG Watch 2005' by CLSA Emerging Markets (CLSA), a Hong Kong based investment bank, and the Asian Corporate Governance Association (ACGA), a non-profit investor pressure group, of the corporate governance standards of the 10 largest equity markets in Asia (Ex-Japan) ranked the countries involved in this study as follows (highest first): Singapore, Hong Kong,

The ADB (2000: 2) identified failures in corporate governance as one of the main factors behind the 1997 Asian economic crisis. Although its research was limited to the five countries¹² worst affected by the crisis, the ADB went on to say, while acknowledging that standards of corporate governance differed considerably across the region, that:

“Casual observations suggest that ineffective boards of directors, weak internal controls, poor audits, lack of adequate disclosure and lax legal enforcement characterize corporate governance in many Asian countries.” (ADB 2000: 1)

The study went on to add that weaknesses in corporate governance appeared to owe much to *“the weak legal and regulatory framework for investor protection”* (ADB 2000: 2). On a more positive note the study concluded that the *“basic regulatory structure for the corporate sector appears to be in place in these countries, although there are gaps and loopholes, and some areas need to be modernized. Poor compliance and enforcement appear to be the major problems.”* (ADB 2000: 3)

Weaknesses in corporate governance in Asia were also identified by Claessens et al. (1999) and Claessens and Fan (2002). They found certain ownership structures led to agency problems arising from large deviations between control and cash flow rights.¹³ This was particularly evident in family controlled companies where the separation of management from ownership control was rare. Claessens et al. (1999:3) found that

Malaysia, Taiwan, Thailand, China. Japan has not been included in the survey since ‘CG Watch 2003’ when it was ranked last among all the countries included in the study.

¹² Indonesia, Republic of Korea, Malaysia, Philippines and Thailand

¹³ They also found that these agency problems are anticipated and priced by investors who when they value shares in a company where they have identified an agency problem apply a discount.

family control was commonplace in more than half of East Asian corporations; management of two-thirds of firms which were not widely-held was related to the family of the controlling shareholder and nearly all private companies were family run.¹⁴

In addition there was a tendency for family-business owners to establish large interlocking networks of subsidiaries and sister companies that include partially-owned, publicly-listed companies. Such structures can lead to severely inequitable treatment of shareholders. By conducting operations through a complex network of subsidiaries, controlling shareholders acquire control of operations and/or cash flows disproportionate to their equity stake in individual companies. The extent of this disproportionate control is frequently opaque to outsiders and undisclosed by insiders. (OECD, 2003: 11).

A survey of the literature on corporate governance in Asia by Claessens and Fan (2002) identified a number of other key themes. Conventional corporate governance mechanisms (takeovers and boards of directors) are not strong enough to relieve agency problems. Firms do employ other mechanisms to mitigate their agency problems (such as employing reputable auditors), but even these have only limited effectiveness. The overall low transparency of Asian corporations relates to these agency problems, with the prevalence of connection-based transactions increasing

¹⁴ As the survey excludes companies where the ownership cannot be traced this suggests the actual degree of family control may be substantially higher. Surveyed countries include: Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taipei and Thailand. Significant cross-country differences were found to exist. Corporations in Japan were generally widely-held, while corporations in Indonesia and Thailand were mainly family-controlled. State-control was significant in Indonesia, Korea, Malaysia, Singapore, and Thailand. They also find that smaller firms are more likely family-controlled, as are older firms.

desires among all owners and investors to protect rents, with rents often arising from government actions, including a large safety net provided to the financial sector.

Resulting forms of crony capitalism, i.e. combinations of weak corporate governance and government interference, not only lead to poor performance and risky financing patterns, but also are conducive to macroeconomic crises (Claessens and Fan, 2002: 72 – 73).

Since, and partly as a result of, the 1997 Asian economic crisis corporate governance standards have risen appreciably in all of the countries where research was undertaken. At the beginning of 1997 only Hong Kong had an official code of best practice now all of the Asian countries involved in the research have introduced codes. Other reasons for an improvement in standards, that have been suggested, include national governments desire to attract capital, local companies need to attract capital to remain competitive in the international marketplace, pressure from foreign institutional investors and the need to bring local corporate governance standards up to an internationally acceptable level thereby reducing or eliminating the poor corporate governance discount applied by many investors to the shares of Asian countries where the corporate governance standards are regarded as below acceptable levels (Roche, 2005: 45 – 47).

However, considerable problems continue to exist Jamie Allen, Secretary General of the Asian Corporate Governance Association said in 2003 ‘...*on the positive side awareness has risen, governance is firmly part of policy, reform is underway in all major economies, there are higher standards (in theory) and emerging shareholder activism. On the negative side, the depth of change has been shallow, governance is*

seen as a compliance issue, not a competitive one, regulatory will vacillates, and significant disincentives to shareholder activism continued to exist ' (In Roche, 2005: 37).

2.5.0 Convergence of National Corporate Governance Systems

As a result of rising trade and transnational business links, the development of comparable business practices and standards is becoming increasingly necessary (Solomon and Solomon, 2004: 153). However, as discussed in the previous section, despite decades of economic globalisation and more recently even more intense financial globalisation cross-national differences in corporate governance regimes, continue to be considerable and can be found in the power of large stockholders, the legal protection of minority shareholders, the extent to which relevant laws are enforced, the treatment of stakeholders such as labour, suppliers or the community, the reliance on debt financing, the structure of the board of directors, the way in which executives are compensated, and the frequency and treatment of mergers and takeovers, especially hostile ones (Guillén, 2000).

Commonly cited pressures leading toward the need for global convergence in corporate governance practices are the international harmonisation of financial markets, increases in international trade, foreign direct and portfolio investment (along with the concomitant rise of powerful MNEs and institutional investors) and the increase in the number of foreign subsidiaries and joint ventures. Countries that do not follow this trend are predicted to decline in terms of global competitiveness (Ibbotson and Brinson, 1993; Bishop, 1994; Charkham, 1995; Useem, 1996; Loredó

and Suárez, 1998; OECD, 1998). Furthermore, corporate governance standardisation is promoted as one way of building confidence in a country's financial markets leading to increased investment (Solomon and Solomon, 2004:153).

Each country has a system of corporate governance that reflects its legal structures, financial systems and structures of ownership, culture and economic factors.

However, in recent years there have been some moves toward some level of convergence. Countries with outsider dominated systems have made significant effort to reduce problems associated with agency – improving the effectiveness of non-executive directors, of the audit function and the relationship between investors and the companies they have invested in. While countries characterised by the insider-dominated system have focused on improving legal protection for minority shareholders, improving corporate accountability and encouraging the development of a broader shareholder base.

In the convergence debate the key question is whether a particular national corporate governance system has a competitive advantage over all other systems, and if yes, whether other systems ought to move towards it. These are important questions as the choice of corporate governance system has an impact on corporate performance, availability and cost of capital, and the distribution of corporate value in a country. (Goergen et al, 2005: 245)

Presently, there is no consensus as to the best system of corporate governance and whether it should be encouraged at the corporate level. The OECD (2004) has produced a set of recommendations designed to provide guidance for legislative and

regulatory initiatives that can be adapted to the specific circumstances of individual countries and regions. The Principles represent a 'baseline' for 'good' corporate governance consisting of common elements that underlie good corporate governance covering such issues as equitable treatment of shareholders, shareholder responsibilities, transparency and disclosure in terms of corporate reporting and audit, the role and responsibilities of company boards of directors, and the importance of non-executive directors (Solomon and Solomon, 2004: 153). The OECD claims they are formulated to embrace the different models that exist. For example, they do not advocate any particular board structure (OECD, 2004: 13). However, it should be noted that many commentators believe that the OECD itself favours the market based outsider system (Dignam and Galanis, 1999). Millstein (2001) argues that diversity in governance practices is not inconsistent with a convergence in governance principles. Cultural and institutional differences may be present in particular national environments, but the underlying principles may allow a more fundamental compatibility (Clark, 2004: 12). Although, the OECD principles are useful as a statement of the basic virtues of accountability and transparency they are not particularly visionary, and not especially substantive. They acts as a reference point for companies who wish to amend their governance practices, however, there is no requirement on individual companies to take notice or even disclose how much of the principles they have adopted (Monks and Minow, 2004: 299).

Guillén (2000) based on current literature identified three potential outcomes of convergence: First, corporate governance practices will converge on the outsider dominated Anglo-Saxon model. The driver behind the adoption of the approach is seen to be the globalisation of financial investment and money management starting

in the early 1980s when both investors and the recipients of investment became more favourably inclined to idea of overseas investment. This approach based on market principles assumes that most financial experts and money managers would prefer companies throughout the world to observe shareholder rights, maximising shareholder value, and be transparent in their reporting of corporate activities and results (Useem, 1996). Furthermore, increased overseas investment by institutional investors is likely to increase the pressure for comparable standardised information on companies. This view was supported by Hansmann and Kraakman (2003) who comment that the increasing acceptance of a shareholder-centred ideology of corporate law by international business, government and legal elites is likely to result in the convergence of corporate governance towards the Anglo-Saxon model.

Second, convergence on a hybrid model that combines features from both outsider and insider models (Fleming, 1998; OECD, 1998) with the right mix of market discipline, corporate regulation, and power of corporate stakeholders (Goergen et al, 2005: 245). The argument for a hybrid model is grounded in the belief that no single model is optimal and that market forces will eventually encourage firms and countries to select features from existing models as they strive to remain competitive (Guillén, 2000). Gilson (2000) suggests that firms may choose to deviate from national corporate governance standards by opting into another corporate governance regime. This suggests convergence could occur at the company level rather than the national level. This could result from a company being listed on more than one national stock exchange, incorporating in another country or being acquired by a company from another country. A negative aspect of incorporating in another country is that the driver behind such a decision could be because the new location has a weaker

corporate governance regime than that of the country where the company presently resides. Although, this could result in a decrease in compliance costs due to a reduction in the degree to which management behaviour and performance is monitored it could also increase the potential of opportunist behaviour by managers to the detriment of other stakeholders, increase the level of information asymmetry between managers and stakeholders and have negative implications for the quality of internal control.

The third option involves convergence on an undefined model with characteristics that can not be presently determined.

Guillén (2000) goes on to identify three key arguments in the extant literature against the likelihood of an international convergence of corporate governance practices.

First, corporate governance systems are tightly coupled with path dependent regulatory traditions in the areas of banking, labour, tax, and competition law that are unlikely to be modified in the near future. Supporting this argument La Porta et al (1998, 1999) contend that diversity in corporate governance around the world is a reflection of attempts by stockholders to overcome poor legal investor protection. For example, countries with legal systems that provide relatively weak investor protection (e.g. Germany and France) tend to have more concentrated ownership than common-law countries.

Second, corporate governance does not exist in isolation of other institutional features. There is a clear link between a country's institutions and the type of corporate governance it has adopted. Different corporate governance systems enable

firms and countries to excel at different kinds of activities in the global economy (Guillén, 2000). For example, the Japanese institutional ability to borrow, improve and integrate ideas and technologies from various sources, a key competitive advantage for its manufacturing companies, relies on the stability and close ties with other companies provided by the *Keiretsu*¹⁵ structure of corporate governance (Gerlach, 1992; Kim and Hoskisson, 1996); and in Germany the participation¹⁶ of labour on the supervisory board of companies underlies the importance attached to workers which is reflected in the considerable investment in training and skills development undertaken with the objective of producing highly trained workers that will give a company a competitive advantage over its rivals. If a country believes its competitive advantage is linked to the corporate governance system that it has adopted it is unlikely to consider changing its approach to corporate governance, adopting a model similar to that of competitors, that may have negative implications for its economic growth and the profitability of its companies.

Third, global pressures on corporate governance practices are mediated by domestic politics in ways that make convergence across countries unlikely. Domestic politics are likely to play a key role in changes to the prevailing corporate governance model. Changes in corporate governance regimes normally require the support of politicians. The same politicians are frequently influenced by powerful interest groups. If these groups – shareholders, labour, other stakeholders affected by the actions of companies – do not support the changes necessary to bring about corporate governance convergence it is less likely the changes will be supported by the politicians especially

¹⁵ The Keiretsu system roughly translates to what in the West would be called 'relationship investing'. It is a pattern of cross-shareholdings by affiliated companies, often including customers and suppliers. There is often a dominant shareholder, such as a 'main' bank or a keiretsu partner (Monks and Minow, 2004: 313).

if they are dependent on the backing of these interest groups. This is supported by La Porta et al (1998, 1999) who argue that the globalisation of the international capital markets is not enough to unsettle existing ownership structures and Roe (1991) who claims that political constraints lead to a suboptimal system and prevent the move towards a more efficient system. Also of interest is the work of Buck and Tull (2000) that looked at how corporate governance reforms introduced in post-World War Two Germany and Japan by US and UK military governments were subsequently modified and even reversed by domestic governments later restored to power.

Another argument against convergence was put forward by Branson (2001) who argues that the 'one size fits all' approach of convergence is culturally and economically insensitive. He uses examples to show that value systems in Asia based on post-Confucianism and tradition are considerable barriers to the importation of the Anglo-Saxon system of corporate governance and that the dominant forms of ownership in the world remain family ownership and other forms of embedded capitalism where the economy is perceived to be subservient to society, rather than the opposite (Clarke, 2004 (b): 13).

In summary while in many ways there is a growing consensus on broad principles of corporate governance, significant differences in national governance regimes still exist and are likely to for the foreseeable future. While common themes are apparent on a global basis the differences reflect the market, institutional and legal environments of individual countries, and result in differences in both interpretation and implementation of corporate governance standards (Dallas, 2004: 148). This

¹⁶ A legal requirement for all company's with over 500 employees.

suggests the possibility that a corporate governance practice designed in an outsider dominated country may not be compatible with the corporate governance regimes adopted by local companies based in an insider dominated country. This is particularly relevant to this research because local business units are expected to comply with a practice mandated by a parent company that operates in a primarily outsider dominated system of corporate governance while in the countries the practice is being transferred to, with the exception of Australia, the prevailing corporate governance regime is insider dominated.

2.6.0 Corporate Governance and the Treatment of Risk Management in the Asia-Pacific Region

An extensive search of academic journals, books, the media and the internet failed to yield any meaningful data regarding the treatment of risk across different corporate governance systems. Based on extant knowledge of the characteristics of insider and outsider dominated systems of corporate governance this section will attempt to develop an understanding of how a corporate governance system can shape company attitudes to risk.

The relationship between risk management and corporate governance is not appreciated among the Asia-Pacific countries in this study to the extent that it is in the UK (Roche, 2005: 145). Although all of the countries in this study, with the exception of Japan, contain references to the importance of risk management in their corporate governance guidelines only Australia provides detailed guidance on the implementation of a risk management process – *Principle 7, Principles of Good*

Corporate Governance and Best Practice Recommendations (ASX Corporate Governance Council, 2003). In Singapore, the country generally regarded as having the highest corporate governance standards of any Asian country¹¹, a survey of 78 companies found:

“59% of the respondents said that their company has a formal process for identifying and managing risks while 38% said that they do not have such a system in place. 3% of the respondents were not aware if such a system existed in their company.

Less than two-thirds of the respondents said that they have a position within the company to oversee firm-wide risk responsibilities while 35% said that they do not have such a position.”

(Corporate Governance and Financial Reporting Centre, 2005: 13)

This begs the question why do companies in the Asia-Pacific region appear to pay so little attention to risk and risk management?

Given that the significance of a risk to a company is a reflection of the probability and impact of an event happening it would suggest that one or both of these variables are understood differently by companies if they treat the same risk differently. To consider why this may be the case the remainder of this section will consider how the characteristics of insider and outsider dominated systems of corporate governance of the countries included in this study could explain attitudes to risk and risk management (see Table 2.1). This is not meant to be a complete list, which is beyond

the scope of this project. Furthermore, it is acknowledged that comments about each system do not necessarily apply to all of the companies in a country or all of the countries that have adopted a specific form of governance. The objective is to give a ‘flavour’ of why companies in the Asia-Pacific region are likely to view risk differently from their Western counterparts.

Table 2.1

National Characteristics

Characteristic	Outsider Dominated	Insider Dominated
Market for corporate control	Well developed	Under developed
Bankruptcy / Insolvency	Extensive regulations that are frequently enforced	Outdated or newly introduced and untested laws that are rarely enforced
Financing	Equity	Bank loans
Shareholder Activism	Well developed	Generally underdeveloped
Ownership Structure	Dispersed	Concentrated, family run
Supplier Relationship	Short term, contractual	Long term, cross holdings, participative
Labour Relationship	High levels of job mobility, stronger worker’s rights	Weak bargaining position. Poor worker’s right
Government Relationship	Arms length	Close, partners
Legal Systems	Well developed	Often underdeveloped

To consider how a country’s corporate governance regime can affect a company’s perception of risk I will use the example of a company that is a member of a Japanese Keiretsu. A Keiretsu, which broadly means ‘Association’, has two distinct types: A vertical Keiretsu in which subcontractors and sub-subcontractors (until the fourth layer) service a main company e.g. auto parts companies supplying Toyota; and a horizontal Keiretsu, in which companies, often in different industries, are grouped together, frequently with a bank at the centre. e.g. Mitsubishi, Mitsui and Sumitomo

(Charkham, 2005: 119). Keiretsu's are characterised by patterns of cross-shareholdings by affiliated companies (often including customers and suppliers), information exchange and regular meetings between executives (Rugman and Collinson, 2006). There are long-term strong personal relationships among high-level managers in the different companies, and the same directors often serve on more than one board. In addition companies can underwrite each other's financing, and can gain more clout when lobbying for government legislation (Daniels et al., 2004: 451). This is not meant to be an endorsement of the Keiretsu concept there are considerable disadvantages of the system including inefficient allocation of resources, limiting foreign competition and raising costs to customers.

A company's view of risk will be shaped by its association with other members of the Keiretsu. Whereas a UK based company may regularly seek new suppliers who can meet its cost and quality requirements discarding its previous supplier if it is unable to match a competitor's offer, a Japanese company is far less likely to change its supplier if it is a fellow member of the Keiretsu. If there are any problems relating to cost or quality it is likely to work with the supplier resolving any issues that may have arisen. For this reason a Japanese company is unlikely to approach quality and cost risks in the same way as a UK company. Furthermore, its long term relationship with its supplier also reduces the risk of any disruptions in supply.

A Japanese company is also likely to view risks involving finance in a different way. If it has borrowed funds from the Keiretsu 'bank' or another Keiretsu company the risk of the loan being 'called in', should the company have financial difficulties, would be less likely than would be the case in the UK when a company's relationship

with a bank is highly unlikely to involve cross-shareholdings and the length of relationship between the two parties could be restricted to that one transaction.

A company's relationship with its workforce is also likely to be different from that found between companies and their workers in the UK. Although the much discussed job for life at a company in Japan is becoming less common Japanese workers are likely to have a different relationship with their employer than would be the case in the UK. Unions in Japan are not trade based but enterprise based and tended to have a consensus rather than conflict based relationship with the company. Communication between the two parties is normally good resulting in a greater unity of purpose (Charkham, 2005: 113) decreasing the likelihood of disruption to a companies activities as a result of action undertaken by its workers. Another benefit of being a member of a Keiretsu is that should a company be faced with a shortage of workers with specific skills it is always possible to 'borrow' suitably skilled workers from another member of the Keiretsu, thereby, reducing the risk of difficulties relating to a lack of skilled labour.

Japanese companies close relationships with government, that often result in retired civil servants taking positions on the boards of companies who they previously had been involved with in a governmental capacity, has tended to reduce risks relating to government intervention in their business, and enabled them to work with government to promote policies that will benefit the company, and prevent the introduction of policies that would have had a detrimental affect on the business. Furthermore in times of financial difficulty the Japanese government has often directly and indirectly supported companies.

Should a Japanese company disappoint its investors the risk of a hostile take over is considerably less than would be the case in the UK¹⁷. Share ownership tends to be more concentrated frequently in the hands of companies with whom it does business or has a cross-shareholding. In addition should the company have strong political connections these are also likely to afford it some protection. Although it is increasing, shareholder activism is also less commonplace than it is in the UK and the risk of a group of shareholders (institutional or private) coming together to challenge management or taking legal action against it is considerably less than would be the case in the UK. Also the legal system does not provide the degree of support to a minority shareholder that would be found in the UK. Finally, a Japanese company is far less likely to file for bankruptcy than a UK company, its bank and the government are more likely to support it than would be the case in the UK, this reduces the risk that a company will cease trading.

The discussion above has been limited to Japanese companies but patterns of relationship / network based business¹⁸ combined with weak bankruptcy laws and low levels of shareholder activism can be found, to varying degrees, in 'Greater China'¹⁹ and countries where ethnic Chinese dominate the business community.²⁰ (This includes all of the Asia-Pacific countries included in this study with the exception of Australia.) This has considerable implications for the way in which a company's employees assess the risks facing a business unit. Given that the majority of the employees of a MNE's Asia-Pacific business unit are likely to have worked for a local company or had considerable exposure to their business practices it is probable that

¹⁷ The number of hostile acquisitions had increased in recent years but they are still rare.

¹⁸ Often based on family ties.

¹⁹ Peoples Republic of China, Taiwan, Hong Kong and Macao.

²⁰ In this research Singapore, Malaysia and Thailand.

their understanding of risks and assessment of their importance is likely to be different from that of a UK employee of the MNE. In addition this may explain why less attention has been paid to the role of risk management in corporate governance in the Asia-Pacific region than has been the case in the UK.

It should be noted that the above discussion does not cover all of the risks a company may face concentrating on those where the assessment of their significance is influenced by the prevailing corporate governance system. Other risks include natural disasters, changing conditions in the regional, national or world economy that will have an affect in the company's business, the risk of obsolescent technology and being an industry in decline.

2.7.0 Conclusion

Although common themes are apparent, among the corporate governance systems of the Asia-Pacific countries in this study and the UK, significant differences exist and are likely to continue for the foreseeable future. Corporate governance standards in the Asia-Pacific countries where research was undertaken, with the exception of Australia, are noticeably inferior to that of the UK. Although the situation has improved since the 1997 Asian economic crisis with the introduction of new laws and codes of practice low levels of compliance and enforcement have dramatically reduced their effectiveness. Outside of Australia the relationship between risk management and corporate governance is yet to be fully appreciated. It should also be noted that only the UK, the source of the organisational practice being transferred, and Australia have adopted an outsider / market-exit approach to corporate

governance while the other seven recipient countries tend towards an insider / voice approach. This is significant because the treatment of risk is influenced by the prevailing corporate governance system. The effect of these different approaches to corporate governance on the successful transfer of knowledge relating to the Turnbull guidelines will be considered when discussing the findings of this research.

THEORETICAL FRAMEWORK

3.0.0 Introduction

This chapter will develop the theoretical framework underlying this research and how it relates to the key questions under consideration (see Chapter 1).

3.1.0 Institutionalisation

This research examines the processes and characteristics of the internal transfer of an organisational practice between UK listed companies and their Asia-Pacific subsidiaries and joint ventures. Following Kostova (1999: 309) this research defines organisational practices as particular ways of conducting organisational functions. They are meaning, value and knowledge based and the extent of their transfer is a function of all three of these factors (Kostova, 1999: 311). This requires the adoption of formal rules (knowledge) relating to the practice and the infusing of the practice with meaning and value. The organisational practice under consideration is a risk based system of internal control that follows the recommendations made in *Internal Control: Guidance for Directors on the Combined Code* more generally known as the Turnbull Report or guidelines. (As stated in Chapter 1 the practice will subsequently be referred to as a RBSIC.) The extent of a transfer, consistent with the institutional perspective proposed by Kostova (1999: 311), is defined as the degree of *institutionalisation*, at the recipient unit. *Institutionalisation* is the process by which a practice achieves a taken-for-granted status (Kostova 1999: 311) and becomes

embedded in the recipient unit's normal management and governance processes. For the purposes of this research *institutionalisation* has two components which draw upon the work of Kostova (1999: 311) and Kostova & Roth (2002: 217):

Implementation – the degree to which the recipient follows the formal rules relating to the Turnbull guidelines as demonstrated by certain specific external and objective behaviours and actions required or implied by the practice; and *Internalisation* - the state in which employees at the recipient unit obtain satisfaction with and become committed to a Turnbull based system of internal control, thereby, infusing it with meaning and value (Selznick, 1957). Only when a practice has been implemented formally and is also internalised by the employees can it be argued to be institutionalised in the recipient.

Implementation and internalisation are likely to be positively interrelated. For example, higher levels of implementation will be associated with higher levels of internalisation which in turn will lead to a greater degree of institutionalisation. The more a particular practice is used in an organisation, the more likely employees will take it for granted and will attach a symbolic meaning and value to it (Selznick, 1957). This is achieved when the recipient fully institutionalises the practice regarding it as *theirs*. The greater the understanding, frequency of interaction, level of individual investment - time, effort, learning (Csikszentmihalyi & Rochberg-Halton, 1981) and eventual control over the practice the greater the likelihood that individuals will realize ownership of the practice (Pierce, Kostova & Dirks, 2001: 301 – 302) facilitating its institutionalisation.

Implementation through which a practice is introduced to the recipient is a necessary condition of internalisation. However, implementation does not automatically result in internalisation. A practice can be formally implemented and its rules strictly followed by employees who are unable to relate to or see any value in the practice, and are therefore unable to internalise the practice.

Unsuccessful implementation does not necessarily mean that a practice will not be infused with value by recipient unit employees. The value may be appreciated but the means to unlock this value may be lacking, due to low levels of implementation, resulting in some degree of internalisation but not institutionalisation. However, complete internalisation, and therefore institutionalisation, is not possible without successful implementation as only through successful implementation can the full value of a practice be realised.

3.1.1 Institutional Theory

Institutional theory has been widely used for studying the adoption and diffusion of organisational practices among organisations (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Tolbert & Zucker, 1983; Abrahamson, 1991; Scott, 1995). Institutions are governance structures based on rules, norms, values, and systems of cultural meaning. In economics institutions serve to minimise market transaction costs (North, 1999). In sociology, institutions are social structures that are sanctioned by the norms and values of the society. In companies institutions create checks and balances, facilitate co-operation and reduce uncertainty. On the one hand, institutionalism refers to the processes by which societal expectations of appropriate

organisational form and behaviour come to take rule-like status in social thought and action (Martinez and Dacin, 1999: 78).

On the other hand, institutionalism is concerned with examining an organisation's internal environment which consists of structures, systems and practices established in the past (Meyer and Rowan, 1977); and an external institutional environment, that it shares with many other organisations (Granovetter, 1985).

Institutional perspectives argue that organisations endeavour to incorporate norms from their institutional environments so that they can gain legitimacy, resources, stability and enhanced survival prospects (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 1987; D'Aunno, Sutton and Price, 1991). To survive, organisations must accommodate institutional expectations even if this results in sometimes inexplicable and inefficient organisational structures and actions. Relating to this research this may mean the institutionalisation of a RBSIC by a business unit even if there was a possibility that the net effect might be a reduction in profitability.

Institutional pressures lead organisations to adopt similar organisational characteristics. This tendency towards uniformity was called isomorphism by DiMaggio and Powell (1983, 1991). They identified three major mechanisms through which it was achieved. *Coercive isomorphism* occurs when organisational patterns, that may be justified as 'best practice' (e.g. the RBSIC) are imposed on organisations by a more powerful authority (e.g. upon whom the organisation is dependent for resources); *mimetic isomorphism*, when organisations respond to uncertainty by

adopting the patterns of other, successful organisations; and *normative isomorphism*, when organisations adopt patterns considered appropriate in the environment.

Institutions can react to institutional pressures in a number of ways. Oliver (1991: 152) identifies five strategies available to individual organisations who are confronted by institutional pressures: *Acquiescence* – sometimes referred to as conformity, is the response that has received the most attention from institutional theorists (Scott, 2001: 171). It involves the three major mechanisms – coercive, mimetic and normative isomorphism – described above and may be motivated by the expectation of enhanced legitimacy, fear of negative sanctions, or hope of additional resources; *Compromise* – balancing, placating and negotiating institutional demands. It is particularly likely to occur in environments containing conflicting authorities (Scott, 2001: 171); *Avoidance* – includes concealment efforts and attempts to “decouple” a differentiated part of the organisation (e.g. creation of a special administrative unit¹ that is outside of the normal organisational structure). Organisations may also opt to respond in a ceremonial manner, implementing changes in their formal structures that are not internalised or institutionalised. Meyer and Rowan (1977) imply this response is widespread; *Defiance* – Organisations not only resist institutional pressures to conform but to do so openly. Defiance is likely to occur when the norms and interests of the recipient organisation diverge substantially from the organisation attempting to impose requirements upon them (Scott, 2001: 174); and *Manipulation* – “*the purposeful and opportunistic attempt to co-opt, influence or control the environment*” (Oliver, 1991: 157). This may involve ways that organisations attempt to defend

¹ The practice was widely used by Enron Corporation as a way to conceal illegal transactions from shareholders and regulators.

themselves, improve their bargaining power (through the development of linkages to important sources of power) and manage views of their legitimacy.

Concepts of institutional theory are a necessary, but not sufficient, set of theoretical perspectives to examine the transfer of practices in international contexts. We must also consider the potential impact and influence of socio-cultural characteristics such as national cultures and the extent to which they can be separated out analytically from purely institutional perspectives. These are described in the next section.

3.1.2 Institutionalism and Culture

A number of scholars have used the concept of national culture to study country level effects (Kluckhorn & Strodtbeck, 1961; Hall, 1976; Hofstede, 1980; Laurent, 1983; Trompenaars, 1993). However, some institutional theorists have questioned the relevance of national culture claiming that national characteristics can change radically (Hobsbawm, 1994); the methodology adopted to measure culture is itself culture-specific (McSweeney, 2002); national cultures are simply informal institutions that influence other social structures (North, 1990; Hill, 1995); for organisations to be effective, the design of the organisation must fit with their size, technology, and strategy, regardless of culture (Child, 1974, 1981; Hickson, Hinings, McMillan and Schwitter, 1991); and the cultural perspective fails to adequately explain why strategies of firms from culturally proximate countries are different (Peng, 2002: 52)

Approaches to culture differ among cross-culture researchers and institutional theorists. Among cross-cultural researchers Hofstede (1991: 5) defines culture as

“the collective programming of the mind which distinguishes the members of one group from another”. While acknowledging that culture can manifest itself at both the macro (national) level and the micro (organisational) level his work has largely focused on the national-level and will be used at that level in this thesis. Trompenaars (1993: 13) defines culture as *“a shared set of meanings that dictate what we pay attention to, how we act and what we value”* that determine how people behave in an organisation. From a more psychological perspective, Triandis (1972) presents culture as the subjective perception of the human-made part of the environment. This includes the categorisation of social stimuli, associations, beliefs, attitudes, roles, and values that individuals share (Thomas, 2002: 28).

Institutional theorists suggest that institutions include laws, regulations, norms, values, as well as cultures. This implies that ‘institution’ is a broader concept than ‘culture’ (Peng, 2002: 54). This approach to culture does not preclude national culture but typically emphasises the rules and practices at the organisation or industry level, and not on the national level (DiMaggio, 1997; Dacin et al. 1999).

Institutionalist theorists with an economics or sociology background do not define culture directly instead they focus on institutions which include culture (Peng, 2002: 53). DiMaggio and Powell (1991: 8) write that *“...institutionalism comprises an interest in institutions as independent variables, and a turn towards cognitive and cultural explanations.”* North (1990: 3), an economist, describes institutions as *“the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.”* While Scott (1995: 33), a sociologist, defines

institutions as “*cognitive, normative, and regulative structures² and activities that provide stability and meaning to social behaviour.*”

The above definitions suggest there is the potential for an overlap between culture and institutions. Institutional frameworks are made up of both formal and informal constraints (North, 1990). Formal constraints include political rules, judicial decisions and economic contracts while informal constraints include socially sanctioned norms of behaviour, which are embedded in culture and ideology (Scott, 1995).

Buck and Shahrim (2005: 44), adopting a ‘coevolutionary’ perspective (Lewin et al, 1999, 2004) whereby culture moderates interactions between old and new institutions, and “*new institutional arrangements evolve in ways consistent with, and reflective of, a nation’s value system*”, argue that prevailing national culture and institutions both have implications for governance systems. For example, relating to this research, the willingness of employees to confront or disagree with their managers may be influenced by a culture that accepts and finds desirable high levels of inequality among its members. In this case subordinates are more likely to expect to be told what to do by their managers and may be reluctant to contradict a manager even though they believe they have identified a risk to the business unit’s objectives. Buck and Shahrim’s hybrid, cultural/institutional perspective is consistent with Lowe (1988: 322) who emphasises “*complex inter-determinism between influences of pre-modern values, modern values, and formal and informal institutional norms*”.

² These structures are developed further in section 3.6.1.

This thesis is particularly concerned with how national culture influences the cognitive and normative components of the social context within which the transfer of the RBSIC from the parent to its Asia-Pacific based business unit occurs using the five dimensions of culture identified by Hofstede (1980) and Hofstede and Bond (1988) to compare the national cultures of the source and recipient countries. (See 3.5.1.4).

3.1.3 Institutional Change

Institutional theory is not usually regarded as a theory of organisational change, but more usually an explanation of the similarity and stability of organisational arrangements in a given population or field of organisations (Greenwood and Hinings, 1996: 1023). As Scott (2001: 181) points out change poses a problem for institutional theorists, many of whom view institutions as the source of stability and order. However, theory and research on institutions frequently focuses on change. Until the late 1980s the emphasis was on institutional construction and convergent change processes with the assumption that institutions are put in place and then exert their effects but are not themselves subject to further change. Since that time theorists and researchers have begun to examine arguments and situations involving institutional change that witness the deinstitutionalisation of existing forms and their replacement by new arrangements, which, in time undergo institutionalisation (Scott, 2001: 181). Dougherty (1994), Greenwood and Hinings (1996) and more recently Chizema and Buck (2006) have suggested that institutional theory can be developed to provide an account of change. Chizema and Buck (2006) have considered how institutional theory could be used to identify circumstances that could lead to a change

in the corporate governance arrangements of a company, specifically, the adoption of executive stock options by German companies.

Institutional change defined by Kraatz and Moore (2002) as “*the abandonment of institutionalised practices, structures and goals and/or the adoption of institutionally contradictory practices, structures and goals by an individual organization or field of organizations*” can lead to deinstitutionalisation which refers to the process by which institutions weaken and disappear. Oliver (1992) identified three general types of pressures towards deinstitutionalisation: *Functional* – perceived problems in the performance of an institutionalised practice; *Political* – shifts in interests or underlying power distributions that provide support for existing institutional arrangements; and *Social* – pressures associated with differentiation of groups and the existence of heterogeneous divergent or discordant beliefs and practices.

Change processes are best examined by designs that incorporate multiple levels of analysis (Scott, 2001: 203). Institutional change can be initiated by both processes or factors that are either exogenous or endogenous to the institutional system under review. The smaller the scope of the system the more likely external factors will be involved (Scott, 2001: 187). Tensions arise within frameworks when the regulative, normative and cognitive elements supporting a practice move out of alignment. This can lead to the various actors interpreting rules in conflicting ways. External tensions are produced when multiple institutions overlap, providing diverse schemas and recipes for action. Political, economic and technical shifts can render current institutions vulnerable to precipitous change (Scott, 2001: 203).

This research is looking at change from the perspective of how the institutional environment of a host business unit impacts the institutionalisation of an organisational practice transferred from business unit's parent company that is itself a reflection of the home institutional environment of the parent company.

3.1.4 Institutionalism and the MNE

Isomorphism suggests that organisations sharing the same environments will employ similar practices. Given that many elements of the institutional environment, such as culture and legal systems, are often specific to a nation (Rosenweig & Singh, 1983) organisational practices can be expected to vary across countries. A MNE will come under pressure to adopt local practices, becoming isomorphic with the local institutional context. At the same time, an important source of competitive advantage for the MNE, is the utilisation of organisational capabilities worldwide (Ghoshal & Bartlett, 1988; Kogut, 1991; Grant, 1996 (a); Nohria & Ghoshal, 1997). Thus MNEs will attempt to leverage practices on a worldwide basis. This will lead to tension between the need for global integration, on the one hand, and local adaptation, on the other hand (Westney, 1993; Rosenweig & Singh, 1999).

The business unit of a MNE is not an independent entity and has to comply with practices mandated by the parent that are formulated in the MNE's home institutional context indirectly reflecting, as they are both channelled and filtered through the parent organisation, the home country's institutional influences (Kostova and Roth, 2002). At the same time, it resides in a host country with its own institutional patterns specific to that country. Therefore, each foreign business unit is faced with two

distinct sets of isomorphic pressures and a need to maintain legitimacy within both the host country and the MNE. Kostova & Roth (2002) refer to this as *institutional duality*. Under these circumstances the relational context that links subsidiary to parent becomes extremely important because it influences the way such pressures from a home country are interpreted and perceived by a foreign subsidiary.

There are different ways in which the institutional environment of a host country may affect the adoption of a practice at a foreign subsidiary. First, it may exert direct pressures on the subsidiary to adopt the practice, independent of initiatives of the parent organisation to diffuse the practice. As a result a subsidiary may adopt a practice to become isomorphic with other organisations from its organisational field in the host country. However, by being foreign in a particular host environment, subsidiaries are, in a way, buffered from the local institutional pressures and are not necessarily expected to be completely isomorphic with other local organisations, especially when the MNE is relatively powerful and the subsidiary is less dependent on the host country. (Zucker, 1987; Meyer & Zucker, 1988). In this case the direct effect of the local institutional environment may be somewhat constrained (Kostova and Roth, 2002).

When the MNE requires the adoption of a particular practice e.g. the RBSIC, which it sees as technically efficient, but the subsidiary views it as inappropriate or inefficient for the particular host country, compliance cannot be expected (Kostova and Roth, 2002: 216). However, organisational pressures within the MNE would require some degree of compliance. In this case the subsidiary might engage in what is referred to in institutional theory as symbolic or ceremonial adoption (Meyer & Rowan, 1977).

Another way in which the recipient country's institutional environment will affect the adoption of the practice is through subsidiary employees. Institutional elements enter institutions through people working in them (Zucker, 1977; Westney, 1993; Scott, 1995). Employees' judgements about a new practice will be influenced by the cognitions and beliefs, which in turn have been shaped by the external institutional environment in which they operate. In the research this refers to cognitions and beliefs relating to systems of internal control that may have developed while working with local companies. Therefore it is possible for a subsidiary that is relatively disconnected from its host environment to be subject to institutional influences through its employees who are carriers of institutions (Kostova and Roth, 2002).

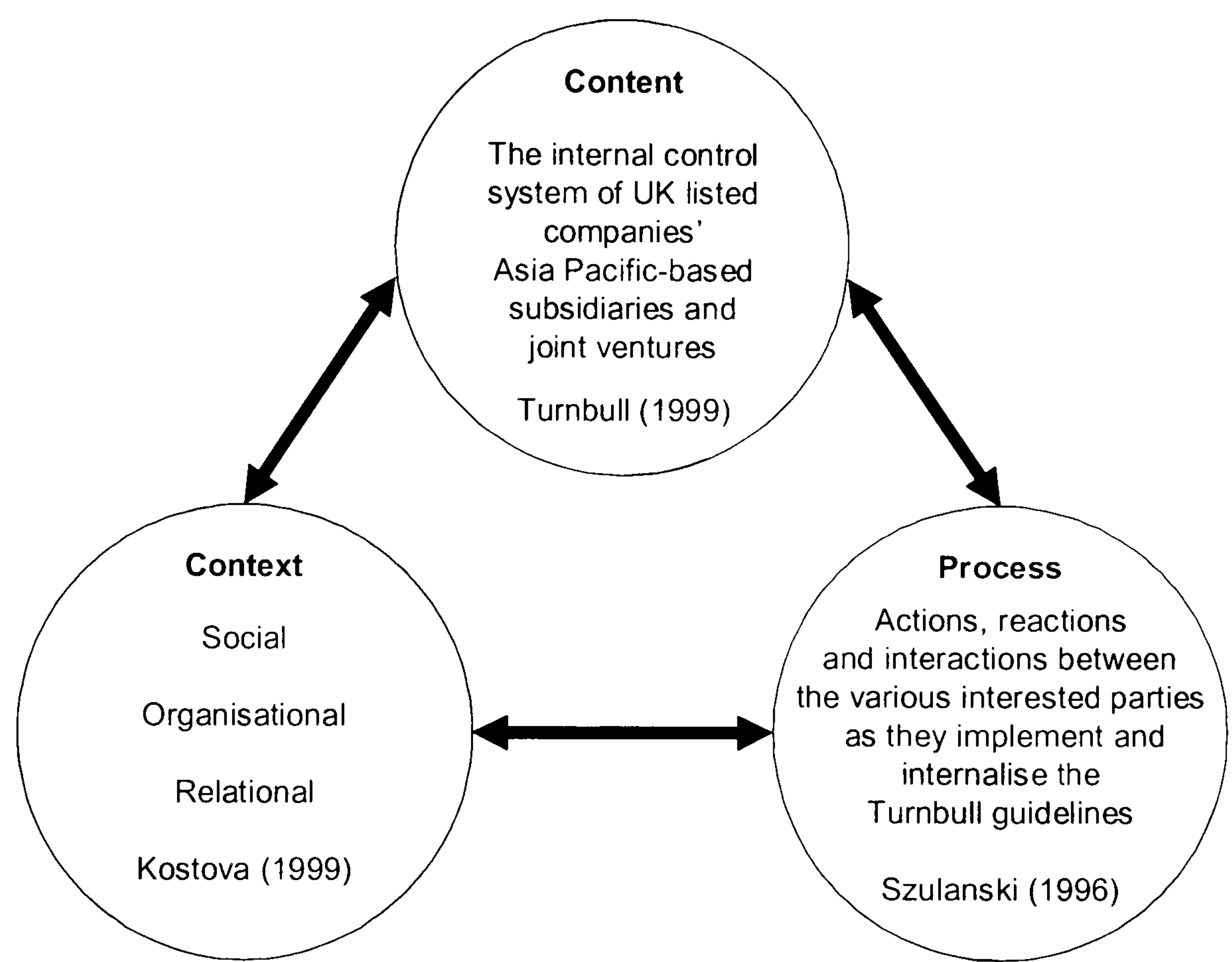
3.2.0 Theoretical Model

The theoretical framework described below will be used to identify the key factors in variations in the implementation and internalisation of the RBSIC in the Asia-Pacific subsidiaries and joint ventures of two UK companies and what are the factors that explain these variations.

Using Pettigrew's (1987) three broad analytical categories (Figure 3.1) *Content* refers to the specific area of transformation under consideration. In this case the system of internal control adopted by a UK listed company's Asia-Pacific subsidiaries and joint ventures. The transformation will be achieved through the transfer of a Turnbull based system of internal control that adopts a risk based approach to establishing a sound system of internal control, that should be embedded in the company. within its

normal management and governance processes, and not treated as a separate exercise undertaken to meet regulatory requirements (Turnbull, para. 9 and 22).

Figure 3.1
Broad framework for guiding the research (Pettigrew, 1987)



Context refers to the outer and inner context of the organisation. Outer context includes the economic, social, political, and sectoral environment in which the firm is located. Inner context refers to features of the structural, cultural and political environment through which ideas for change proceed (Pettigrew, 1990). The *Context* component of the analytical framework adopted for this research will use a framework derived primarily from the work of Kostova (1999) and Kostova and Roth (2002) to examine the transnational transfer of strategic organisational practices within multinational companies based on the notion of the contextual embeddedness of the process of transfer. Strategic organisational practices are defined as practices that are believed to be of strategic importance to the firm providing a source of competitive

advantage, they tend to be more complex and broad in scope and more ‘people’ rather than ‘technology’ focused (Kostova, 1999: 310). A risk based system of control that follows the recommendations contained in the Turnbull guidelines is consistent with this description.

Kostova’s (1999) framework is useful in developing an understanding of the *Contexts Within which the Transfer Occurs*. Her theoretical approach blends the socio-cultural and the institutional perspectives described earlier. It allows the research to examine the role of country, organisational and individual factors in the implementation and internalisation of the RBSIC through the analysis of the social, organisational and relational contexts within which the process of transfer occurs.

Finally, *Process* refers to the actions, reactions and interactions between the various interested parties as they seek to implement, internalise and institutionalise the RBSIC and how they are affected by the factors that influence the difficulty of practice transfer. Szulanski (1996: 28) defined organisational practices as the routine use of organisational knowledge. He identified four sets of factors likely to influence the difficulty of transferring knowledge within an organisation which he referred to as *internal stickiness*. Three of which are included in *Factors that are Likely to Influence the Difficulty of Practice Transfer* the *Process* component of the analytical framework adopted for this research. They are characteristics of the practice transferred, of the source of the practice, and of the practice recipient. By analysing these three factors it is hoped to develop an understanding of the role they play in the process of implementing and internalising the RBSIC at the recipient unit. The fourth

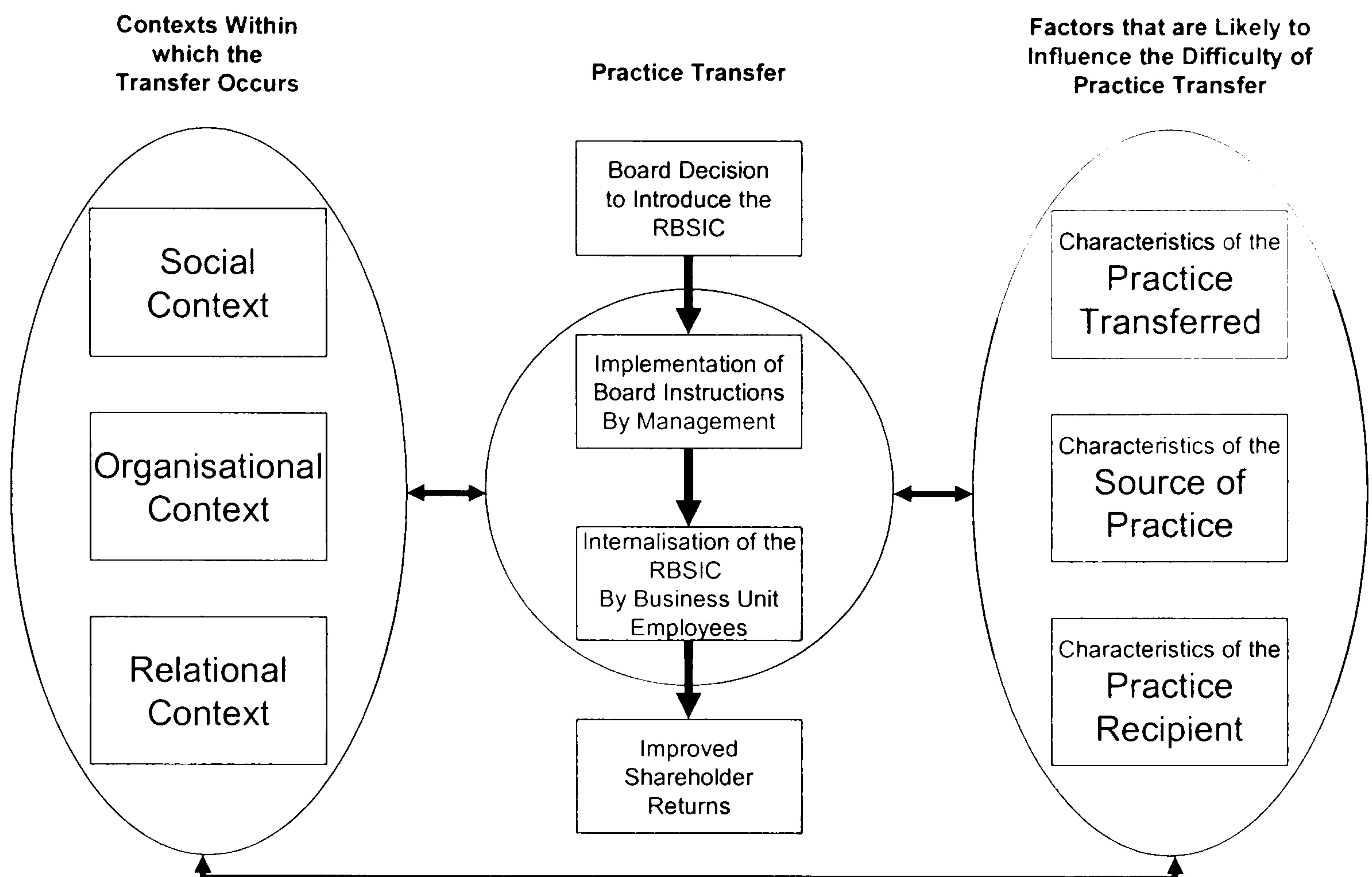
set of factors – context in which the transfer takes place is included in *Contexts within which the Transfer Occurs*.

3.3.0 Framework for the Analysis of the Implementation and Internalisation of a Turnbull Based System of Internal Control in the Asia-Pacific Subsidiaries and Joint Ventures of UK Listed Companies

The RBSIC (*Content*), the context of the practice transfer (*Context*) and the role of internal stickiness (factors that influence the difficulty of practice transfer) in the practice transfer (*Process*) are brought together in Figure 3.2 to form the theoretical framework that will be used to analyse variations, and the factors that explain these variations, in the implementation and internalisation of a RBSIC transferred from two UK listed companies to their Asia-Pacific subsidiaries and joint ventures. While this research expects that context is likely have a proportionally greater effect on internalisation and process is likely to exert a greater influence on implementation. Content, context and process are viewed as interrelated and dynamically interlinked over time (Walsham & Waema, 1994: 153). The ability of a subsidiary / joint venture to institutionalise a RBSIC will be influenced by the nature of the system itself. It will influence the context within which the transfer occurs and the type of factors that affect the difficulty of practice transfer. The context within which the transfer occurs will also have some bearing on the nature of the system of internal control and the factors that influence the difficulty of transfer. In turn, the factors affecting the difficulty of practice transfer will influence the design of the system of internal control and play a role in shaping the context within which it is embedded.

Figure 3.2

Framework for the analysis of the implementation and internalisation of a Turnbull based system of internal control in the Asia-Pacific subsidiaries and joint ventures of UK listed companies



3.4.0 Content – Risk Based System of Internal Control

Risk, derived from the early Italian *risicare* or *to dare*, is an ever present aspect of the business world. Recent years have witnessed a growing interest in the disclosure of risk information by UK companies. The Turnbull guidelines aim to provide a conceptual framework for companies to disclose risk (Solomon et al., 2000: 448).

Companies set themselves strategic and business objectives, then manage the risks that threaten the achievement of these objectives (KPMG, 1999: 14). Internal control is one technique to manage risk other devices include:

- Transfer of risk to third parties (contractually or through insurance)
- Sharing risks
- Contingency planning
- Withdrawal from unacceptably risky activities

(KPMG, 1999: Blackburn, 2000)

This research is concerned with the transfer of an internal control system that meets the recommendations included in the Turnbull guidelines. Successful internal control systems are likely to be both context and practice orientated.

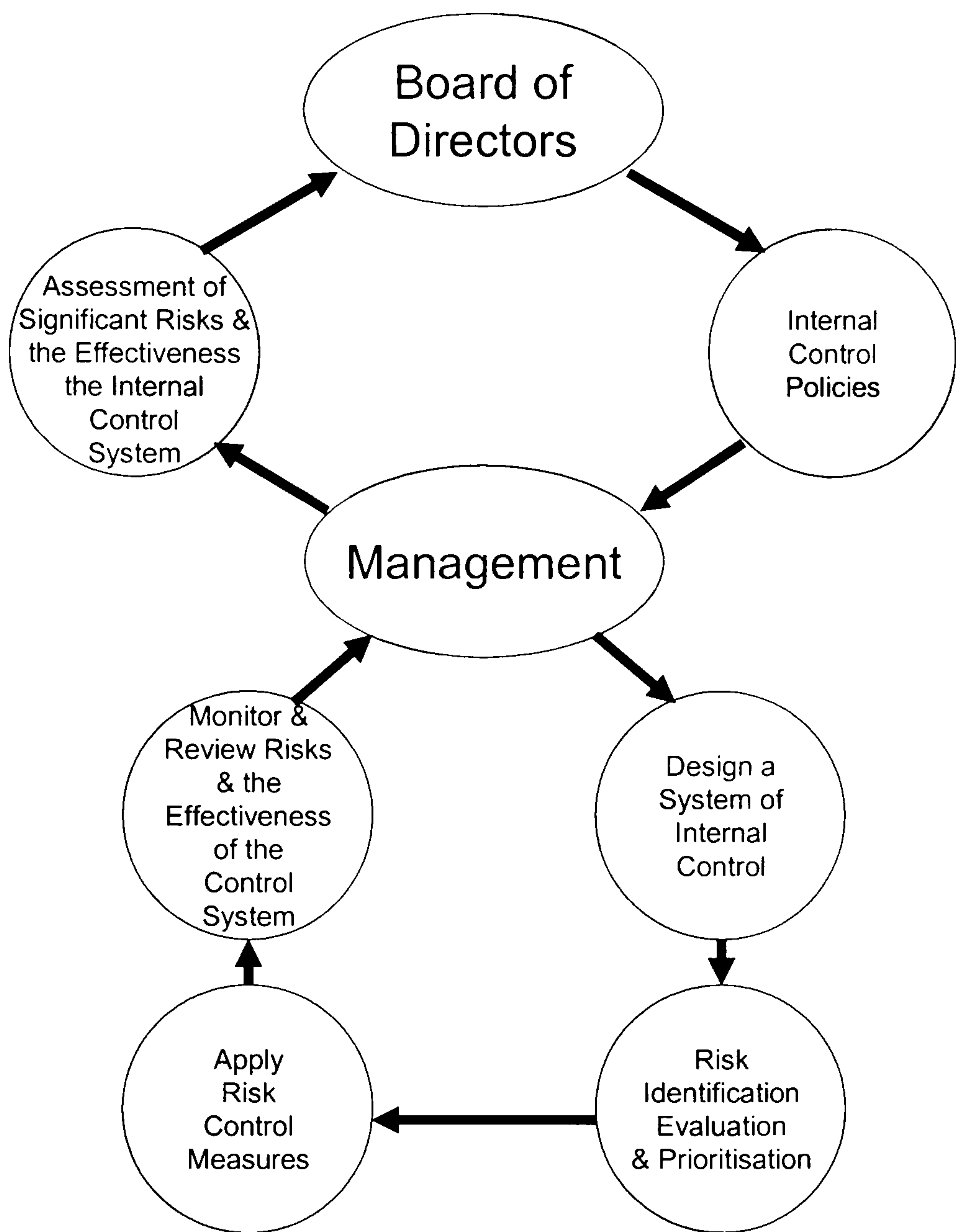
A RBSIC is context-orientated as it encourages the development of an organisational culture that promotes the identification and management of risks and practice-orientated through the direct application of the practices included in the Turnbull guidelines. These are largely bureaucratic in nature, relying on a formal system that involves risk identification, evaluation and reporting mechanisms mandated by senior management.

Through the successful institutionalisation of a RBSIC the Board will be made aware of the significant risks faced by a subsidiary / joint venture and the actions taken to manage those risks.

The Board is accountable to the company's shareholders and the management is accountable to the Board. Through the practices recommended in the Turnbull guidelines, the management, following the instructions of the Board, is required to institute a RBSIC throughout the company that will safeguard the shareholders'

investment and the company’s assets. Figure 3.3 shows the relationship between the Board of Directors, management and the system of internal control. When the RBSIC

Figure 3.3
A Turnbull based system of internal control

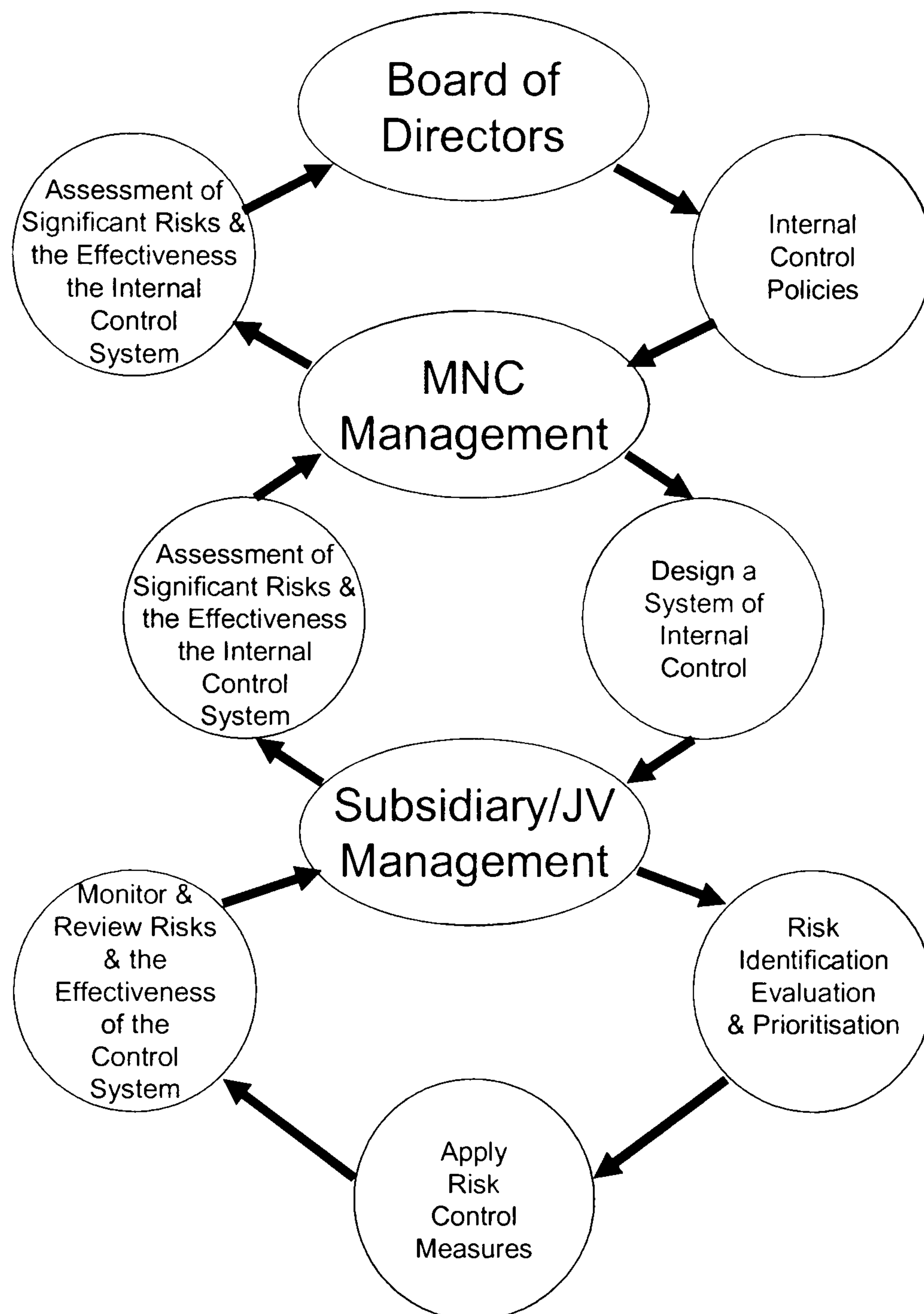


operates in a subsidiary or joint venture another layer is added to the relationship (see Figure 3.4) with the addition of a management team, responsible for the subsidiary / joint venture, that is separated from the rest of the company.³ In the case of an Asia-Pacific subsidiary / joint venture this separation is made greater by the geographical distance. Given this separation from the corporate headquarters the likelihood that the

³ Further layers are also possible. e.g. regional headquarters

Figure 3.4

A Turnbull based system of internal control in a subsidiary / joint venture



local management team will have had little or no involvement in determining the system of internal control, they are expected to adopt, may also increase. This in turn could increase the costs associated with the transfer and the ability of parent and subsidiary / joint venture to effectively co-ordinate the transfer (Zaheer, 1995: 343) making a successful transfer more unlikely.

3.5.0 The Contexts within which the Practice Transfer Occurs

The process of transfer is contextually embedded, it does not occur in a social vacuum (Kostova, 1999). Kostova (1999) identifies three types of context:

3.5.1 Social Context

Social context refers to the institutional distance between the countries of the parent company and of the recipient unit.

Organisational practices vary across countries and they are affected by the socio-cultural environments in which they have been evolved and used. This will lead to country-level effects on the success of practice transfer, with some countries providing more favourable environments for the transfer of practices and others presenting a number of difficulties and challenges. Differences exist in a variety of organisational practices that are particularly relevant to the transfer of a RBSIC.

Leadership and distribution of power in a business unit can determine the degree that employees are expected to be responsible for embedding the practice throughout the organisation and the degree to which the responsibility for its institutionalisation is seen as exclusively the responsibility of senior management. Human resource practices will influence the development of the skills required to institutionalise the system of internal control. While decision making can require a greater level of consensus when deciding on the nature of a system of internal control in some business units than will be the case in others.

Kostova (1997; 1999) uses the construct of *country institutional profile* (CIP) to capture the institutional characteristics of a national environment. She proposes that countries differ in their institutional characteristics; organisational practices reflect the institutional environment of the country where they have been developed and established; and therefore when practices are transferred across borders, they may not “fit” with the institutional environment of the recipient country, which, in turn, may be an impediment to the transfer (Kostova, 1999: 314). Kostova’s (1997: 180) approach acknowledges the importance of culture while proposing that it might have some limitations when used to conceptualise national environments and their effects on organisations commenting that other aspects of national environments can affect organisational behaviour such as the economic or political system. A country’s CIP is composed of various types of institutions and can be characterised by three “pillars” – regulatory, cognitive and normative (Scott, 2001: 51). (The three sub-variables of the social context variable of the theoretical framework). Two of these components, cognitive and normative are conceptually close to culture while the regulatory dimension is unique to the CIP (Kostova, 1999: 314). The greater the differences in CIP between the home and the recipient country the harder it will be to transfer practices. The appropriateness of this approach to study the transfer of governance related practices is supported by Buck and Shahrim (2005: 44) who argue that prevailing national culture and institutions both have implications for governance systems.

3.5.1.1 Regulatory

The regulatory component reflects the existing laws and rules in a particular national environment that promote certain types of behaviours and restrict others. e.g.

National corporate governance regulations. Nationally distinct laws and rules drive corporate governance practices to become more similar within countries and differ across countries (Aguilera and Jackson, 2003: 449). Different institutions of corporate governance produce different consequences in terms of the mode of decision making of firms, patterns of adjustment, and the distribution of value added among the various parties (Goyer, 2003: 187). Given that the presence of institutional complementarity significantly contributes to the resilience of domestic institutions (Goyer, 2003: 187) if a corporate governance practice is perceived by the employees at a recipient unit to be in conflict with the regulatory institutions in their country, it is highly unlikely they will engage in transferring and implementing it.

3.5.1.2 Cognitive

The cognitive component reflects the cognitive structures widely shared by the people in a particular country. Cognitive structures constitute the nature of reality and the frames through which meaning is made (Scott, 2001: 57) directly affecting individual behaviour. Events may have different interpretations based on the cognitive structures that perceivers have at their disposal (Kostova, 1999: 315). This research is directly concerned with the cognitive institutions relating to the shared social knowledge that people have regarding a RBSIC. If a system of internal control is inconsistent with the cognitive institutions in the recipient environment, employees

will probably have difficulties understanding, interpreting and judging it correctly making it much harder to learn and institutionalise.

If a practice is consistent with the cognitive institutions in the recipient environment it can reduce the recipient's fears over the adoption of a new practice and the change it will probably bring (Ettlie, 1986), reduce resistance levels in institutionalising the practice (Leonard-Barton & Deschamps, 1988) as well as reducing the possibility of the 'not-invented-here' syndrome, where a recipient rejects an idea that was not derived internally (Katz & Allen, 1982), from occurring.

3.5.1.3 Normative

The normative component consists of the social norms, values, beliefs and assumptions about human nature and human behaviour that are socially shared and carried by individuals in a given country (Kostova, 1997, 1999). Normative components introduce "a prescriptive, evaluative, and obligatory dimension into social life" (Scott, 2001: 54). Hofstede (1991: 8) defines values as the conceptions of the preferable or desirable, while norms specify how things should be done. With respect to this research normative institutions are the beliefs, values, social norms and assumptions that people hold toward the RBSIC that is being transferred. If this practice is to be institutionalised successfully in a foreign subsidiary or joint ventures it has to take into account the different assumptions and value systems of the national culture of the subsidiary / joint venture.

In summary, Kostova (1999: 314) acknowledges that the cognitive and normative dimensions of CIP are conceptually close to culture. However, the regulatory dimension is unique to CIP and it can be used to capture some of the social dynamics resulting from the introduction of new regulatory procedures that are represented in this research by a Turnbull based system of internal control.

3.5.1.4 Hofstede

To compare the national cultures of the respective parent companies with that of their subsidiaries and joint ventures, and consider the implications for the transfer of RBSIC, this research will use the four dimensions of culture identified in Hofstede's *Study of International Differences in Work-Related Values* (1980) and a fifth dimension Long-Term Orientation that was added in 1988. These dimensions show how the underlying values of a group's culture permeate through to affect relationships, work and social values. Appendix 1 shows the scores across the five dimensions for the countries included in this research⁴.

The five dimensions are:

The *Uncertainty Avoidance* dimension measures how far different cultures are prepared to accept ambiguous situations and tolerate uncertainties about the future (Hofstede & Hofstede, 2005: 167). Uncertainty avoidance does not reduce risk it reduces ambiguity. This can be achieved through the introduction of a risk management system that identifies and quantifies risk. When a risk is known the

⁴ Malaysia was not included in the research on Long-Term Orientation.

degree of uncertainty surrounding it is reduced. Therefore, it is more likely that a society with high uncertainty avoidance will value a RBSIC.

The *Individualism – Collectivism* dimension describes the relationship between the individual and the group to which they belong. In collectivist cultures a high value is attached to loyalty to the group which in this case could be an employee's immediate work unit, the entire business unit and /or ethnic group.

The third dimension is *Power Distance* which is defined as *the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally* (Hofstede and Hofstede, 2005: 46).

Particularly relevant to this research is the degree to which employees feel comfortable approaching and/or contradicting their managers.

The fourth dimension is *Masculinity – Femininity*. A society is called masculine *when gender roles are clearly distinct, men are supposed to be assertive, tough and focused on material success, whereas women are supposed to be more modest, tender, and concerned with the quality of life* (Hofstede & Hofstede, 2005: 120). In a masculine culture the organisation is more likely to resolve conflict by letting parties fight it out. While in a feminine culture employees resolve conflicts by compromise and negotiation. Upon commencement of this research this dimension appeared to be the least relevant.

The fifth dimension is *Long-Term Orientation versus Short-Term Orientation*.

Hofstede describes long-term orientation as *“the fostering of virtues orientated toward*

future rewards – in particular, perseverance and thrift". Short-term orientation refers to *"the fostering of virtues related to the past and the present – in particular, respect for tradition, preservation of face, and fulfilling social obligations."* (Hofstede and Hofstede, 2005: 210)⁵ This dimension is of interest for this research as all of the Asia-Pacific countries included in this research, with the exception of Australia (in common with the UK) and Malaysia⁶, were found to have a long-term orientation (See Appendix 1).

Hofstede and Bond (1988: 17 – 18) identified long-term orientated cultures as those where a harmonious and stable hierarchy and having a sense of shame which supports interrelatedness through sensitivity to social contacts is important, and where there is a stress of keeping ones commitments. Short-term orientated cultures are more likely to emphasise personal steadiness and stability and show too much respect for tradition and protecting ones face impeding the introduction of new ideas and risk taking. It should be noted that Hofstede acknowledges the importance of face in many Asian cultures and suggests that respondents in long-term orientated cultures at a conscious level wanted to de-emphasise it (Hofstede and Hofstede, 2005: 218).

Hofstede's approach had been subject to a number of criticisms (e.g. Cooper, 1982; Roberts and Boyacigiller, 1984; McSweeney, 2002). The key criticisms and responses by Hofstede (2002) and other commentators (Smith, 2002; Mead, 2005) are summarised in the following table:

⁵ The fifth dimension was based on work undertaken by Michael Bond, involving 100 respondents in 22 countries. Both the long and the short-term rated values of this dimension are found in the teachings of Confucius, the most influential Chinese philosopher who lived around 500 B.C.; however, the dimension also applies to countries without a Confucian heritage. (Geert Hofstede Cultural Dimension website – www.geert-hofstede.com). All of the Asia-Pacific countries in this research with the exception of Malaysia (not included in the survey) and Australia demonstrated a long-term orientation.

Table 3.1

Criticism's of Hofstede's Dimensions of Culture

Criticism	Response
Hofstede assumes that national territory and the limits of culture correspond.	All members of a nation do not share their culture to the same degree. Hofstede's findings represent central tendencies based on statistical averages. In addition Hofstede (2002) acknowledges nations are not the best units for studying cultures but usually they are the only kind of units available for comparison.
All of the informants for the first four dimensions worked for a single company – IBM	By using the same company Hofstede was able to compare unusually well matched samples for an unusually large number of countries to measure differences between national cultures. Hofstede (2001) validated his findings with data from completely different sources.
The IBM data is over thirty years and therefore obsolete	The dimensions found are assumed to have centuries old roots and are therefore likely to change very slowly.
Surveys are not a suitable way of measuring cultural differences as they have an 'in-built' cultural bias.	It is impractical given the large number of informants to adopt any other approach.
Hofstede's work leads to a stereotypical approach in the interpretation of an individual's behaviour.	Hofstede has repeatedly stated his dimensions are not the basis for the interpreting the behaviour of individuals within particular cultures.
Roberts and Boyacigiller (1984) argued that measurement validity was the principle weakness of Hofstede's 1980 work.	The extent of significant correlations with a wide range of independently collected culture-level scores provides abundant proof that Hofstede's dimensions are both reliably and validly measured (Smith, 2002: 123).
Five dimensions are not enough	Hofstede (2002) acknowledges if more can found and validated then they will be welcome but to date they have not been. Furthermore, too many dimensions will make comparison more complex.
The same behaviour can be explained by more than one dimension. e.g. People try to look as impressive as possible – power distance or masculine / feminine.	Some overlap is inevitable. Further research should make the identification of the appropriate dimension (s) possible

⁶ Not included in the Bond's research.

Despite the criticism's listed above and the publication of a number of more recent influential studies that compare cultures including Trompenaars (1993) and GLOBE (House et. al, 2002) Hofstede's framework is used in this research because it represents work undertaken in over 70 countries involving 116,000 informants, developed dimensions of culture that are relevant to this research, taps into deep cultural values and make significant comparisons between national cultures possible.

3.5.2 Organisational Context

Organisational context refers to the role of organisational factors in the transfer process.

Transfers are organisationally embedded since they occur in a corporate context that can either be favourable or unfavourable regarding a particular transfer. This can lead to difficulties in transferring practices if the practice being transferred is incompatible with the organisational practices of the recipient unit (Rogers, 1980; Kogut and Zander, 1992; Zander and Kogut, 1995).

Kedia and Bhagat (1988: 567 – 568) propose that difficulties can also arise if the organisational cultures of the two organisations involved in the transfer are incompatible and / or the absorptive capacity of the recipient unit is insufficient to implement, internalise and institutionalise the new practice due to its inability to understand its value and assimilate and apply it effectively in the local environment. They conceptualise compatibility (based on Strauss, 1982) as similarity between the “negotiated order” of the two organisations involved in the transfer. Strauss argued

that social order is negotiated and that organised activity is not possible without some form of continued negotiations which are contingent on the structural conditions of the organisation, and that they reflect patterned not random, lines of communication in the context of the organisation (Kedia and Bhagat, 1988: 567). Kedia and Bhagat argue that if the “negotiated order” in the cultures of the source and recipient organisations is significantly different then transfer will be difficult.

Absorptive capacity which refers to the ability of a firm to recognize the value of new, external information, assimilate it and apply it (Cohen and Levinthal, 1990: 128) can play a key role in the institutionalisation of an organisational practice. Kedia and Bhagat (1988: 567 – 568) were concerned with three specific aspects of absorptive capacity that are directly related to organisational context: First, local versus cosmopolitan orientation - in a cosmopolitan organisation priorities are less likely to reflect the immediate concerns of local managers making it easier to transfer knowledge (Merton, 1968). Second, technical capabilities - the existence of a sophisticated technical core that enables the organisation to implement and use the knowledge. The lack of a sophisticated technical core makes it harder for a practice to be implemented (Hamel, 1991; Nelson and Winter, 1982; Nonaka and Takeuchi, 1995; Dinur et al., 1998). Third, strategic management – the management skills and orientation necessary to benefit from the knowledge at the recipient unit. The absence of such skills is often apparent in environments undergoing rapid change (Neghandi, 1971; Marton, 1986). The nature of the three components will be directly influenced by the organisation’s culture which is defined as *‘a set of values widely shared among the organisational members’* (Chatman and Jehn, 1994: 524).

Absorptive capacity can also be influenced by the degree to which the individuals in an organisation who are involved in the practice transfer are similar in certain attributes, such as beliefs, education, and social status (Rogers, 1995: 18 – 19) and / or share the overall strategy, goals and values of the parent company (Ghoshal and Bartlett, 1988: 384). When interacting individuals “*share common meanings, a mutual sub-cultural language, and are alike in personal and social characteristics, the communication of new ideas is likely to have greater effects in terms of knowledge gain, attitude formation, and overt behaviour change*” (Rogers, 1995: 19).

Kedia and Bhagat (1988: 562) also suggested that compatibility and absorptive capacity will have a stronger impact on the transfer of a practice that is process and person-embodied than for product-embodied knowledge. Given that a system of internal control is process and person-embodied these factors are particularly relevant to this research.

Another reason for an unfavourable organisational context could be that the transfer of a practice requires a business unit to unlearn some existing knowledge whose values and norms were regarded as more appropriate to the organisations culture. This is necessary to avoid developing a ‘core-rigidity’ (March, 1991; Leonard-Barton, 1992) that acts as a constraint to an effective transfer of knowledge (Hedberg, 1981; Burgelman, 1983; Nystrom & Starbuck, 1984; Dixon, 1994) possibly leading to the ‘not-invented-here’ syndrome (Katz and Allen, 1982).

Ghoshal and Bartlett (1988: 384) found that a subsidiary’s ability to adopt new technology is positively effected by the level of intra-business unit communication.

This was also identified as playing an important role in the adoption of key practices by Murdoch (1997) and Daly et al. (2003: 161) suggesting intra-business unit communication is an important component of absorptive capacity.

Kostova suggests that organisational culture can have two types of effects on the success of practice transfer. First, *general* - the success of a transfer of a strategic organisational practice from a parent company to a recipient unit is positively associated with the degree to which the unit's organisational culture is generally supportive of learning, change, and innovation. If learning is not considered important, the time for employees to learn and understand new practices may not be made available, sacrificed in the name of efficiency (Stewart, 1996). Secondly, *practice specific* - the success of a transfer of a strategic organisational practice from a parent company to a recipient unit is positively associated with the degree of compatibility between the values implied by the practice and the values underlying that unit's organisational culture. In addition to factors specific to an organisation these values will, in part, be derived from a business unit's national culture which has been considered in the social context variable. To avoid duplication the organisational context variable of this framework is conceptualised in terms of three sub-variables – absorptive capacity; general support for learning change and innovation; and organisational compatibility.

3.5.3 Relational Context

Schrader (1991) concluded that a strong positive relationship between recipient and source facilitates the transfer of knowledge. *Relational Context* is derived from the

specific relationships that exist between the parties involved in the transfer. Transfer failures are possible, even when both the social and the organisational contexts are favourable. A potential reason for such failures could be the relational context. This requires an understanding of the specific relationships that exist between the individuals at the source and recipient unit who are responsible for the transfer of the RBSIC and its eventual institutionalisation in the recipient.

The transfer of a new system of internal control can be expected to lead to changes at the recipient unit that could affect some employees more than others. The process of institutionalisation could lead to changes in organisational culture, the introduction of new work routines and the requirement for training that in some cases could be relatively extensive. If it is to be successful it will require the commitment of substantial time and financial resources. It will also be necessary to effectively motivate the important decision makers and key players at the recipient unit. They will consist of senior managers, who are “in charge” of all transfers, whose support will be required if the new, corporate headquarters mandated, system of internal control is to be institutionalised and an “expert” group of employees who are directly involved in the management of the RBSIC. These two groups, referred to by Kostova (1999: 317) as the *transfer coalition*, have a key role in understanding and interpreting the practice and its value to the unit. Their responsibilities normally include obtaining employee ‘buy-in’, determining what is communicated and how it is communicated, and to a large extent, control over the use of the resources allocated for the transfer. However, the support given to the transfer process by the transfer coalition is not, by itself, sufficient to ensure the ultimate success of a transfer which requires the support of all the employees at the recipient unit (Kostova, 1999: 319).

Kostova (1999: 318) proposes that the motivation of the transfer coalition to engage in the process of transfer is affected by the quality of the relationship with the parent company. This includes the past relationships between the parent company and the recipient unit as perceived by members of the transfer coalition at the recipient unit. This relationship could be affected by the nature of communication between the source and the recipient. As demonstrated empirically by Ghoshal and Bartlett (1988) knowledge flows from corporate headquarters to a subsidiary cannot occur without the existence of transmission channels. Differences in the value of these channels can be influenced by many factors including frequency, quantity, quality, informality and openness (Daft and Lengel, 1986; Gupta and Govindarajan, 1991; Jablin, 1979; Tushman, 1977) all of which can play a key role in the successful transfer of a practice.

The relational context variable of this framework has four sub-variables. The three characteristics of the relationship context used for the model of practice adoption developed by Kostova and Roth (2002: 218)⁷ and a fourth variable identified by Szulanski (1996, 2003).

⁷ The researcher originally planned to incorporate the two types of relationships identified by Kostova (1999: 318 - 319) in the relational context construct of the theoretical framework: (1) Attitudinal which consisted of three attitudinal relationships – the transfer coalition's commitment to, identity with, and trust in the parent company; and (2) Power / dependence relationships. However, initial analysis found that responses to questions regarding commitment, where commitment is defined as *the degree to which coalition members are prepared to exert considerable effort on behalf of the parent company* (Mowday et al, 1979), were unreliable as employees were unlikely to admit to lack of commitment to the parent. The researcher decided to remove commitment to the parent from the relationship context leaving the two remaining attitudinal relationships and power / dependency relationship. This is consistent with the three characteristics of the relational context described by Kostova and Roth (2002: 218). Using these three characteristics the researcher was still able to develop an understanding of the recipient unit employee's level of commitment to the parent as reflected in the responses to questions relating to dependence, trust and identification.

3.5.3.1 Dependence

Dependence of a subsidiary is defined as the belief held by subsidiary managers that the subsidiary relies on, and is contingent on, the support of the parent organisation for providing major resources, including technology, capital and expertise (Doz and Hamel, 1998: Kostova and Roth, 2002: 218). Because of its role in relation to its headquarters the recipient unit may develop perceptions of *dependence* on the parent. This dependence confers power to the headquarters. When dependence is high, organisations are more likely to implement new, headquarters mandated, organisational practices; when it is low, they may defy the parent or manipulate the environment (Kostova and Roth, 2002: 219). Therefore, subsidiaries or joint ventures that perceive themselves to be dependent on their parent will be more likely to comply with mandates coming from the parent. Given this position the recipient may try to become internally legitimate with the parent company, so as to be seen favourably, increasing the likelihood of receiving the resources it deems necessary (Pfeffer & Salancik, 1978). Becoming isomorphic with the parent by implementing organisational practices that have been institutionalised at the parent, such as a RBSIC, is one of the strategies that subsidiaries might use to gain intra-organisational legitimacy (Meyer and Rowan, 1977: 352).

However, although dependence can affect implementation it does not affect institutionalisation, a transfer where the single motive is to achieve legitimacy with, and approval by, the parent company is unlikely to lead employees at the recipient unit to develop positive attitudes toward the practice leading to the internalisation required for institutionalisation.

3.5.3.2 Trust

Drawing on Bromiley and Cumming's (1995) definition of inter-organisational trust Kostova (1999: 318) and Kostova and Roth (2002: 219) define trust by a foreign subsidiary in its parent company as a common belief within the subsidiary that the parent company behaves in accordance with any commitments, both explicit and implicit; is honest in discussions that precede such commitments; and does not take excessive advantage of the recipient unit. This is consistent with Casson's (1997: 118) more general definition that trust is a "warranted belief that someone else will honour their obligations." Higher levels of trust, associated with higher perceived reliability of the source, will likely reduce uncertainty regarding the value of the practice to the recipient unit, as well as the motives behind the transfer, positively influencing the likelihood of transfer success (Granovetter, 1985: 490; Szulanski, 1996: 35; 2003: 54). Trust is needed when the relationship between source and the recipient prevents the recipient from having any recourse if the source behaves in a way that disadvantages the recipient (Lazaric and Lorenz, 1998). This is often the case between headquarters and its respective business units. Also higher levels of trust may reduce the costs of the transfer by improving communication smoothing negotiations (Zaheer, McEvily & Perrone, 1998: 152).

3.5.3.3 Identification

Baum and Berta (1999) found that organisations seek to imitate the routines of other organisations that have a higher status (such as a parent). However, this may not be the case if they do not identify with the higher status organisation. Identification of a

foreign subsidiary or joint venture with the parent organisation is defined as the degree to which subsidiary employees experience a state of attachment to the parent (Kostova and Roth, 2002: 220). The more an individual feels part of an organisation, and derive part of their identity from membership of that organisation, the more likely they are to share its values and beliefs. The same values and beliefs should be embodied in the practice the company is transferring making it easier for the recipient to understand and support it. This will also reduce the effects of the 'not-invented-here' syndrome (Katz and Allen, 1982) as the practice will be seen to a lesser extent as coming from outside of the business unit. This is consistent with the findings of Child and Rodrigues (1996: 50) that practice transfers in international joint ventures are more likely to be successful when both parties hold similar social identities and Peteraf and Shanley (1997) whose research suggested that as the social similarity of parties' increases, so will their ease of communications, increasing the likelihood of a successful transfer (Cummings, 2003: 17).

In addition when a business unit identifies with the parent, its employees will prefer to become even more similar (isomorphic) with the parent by adopting its practices. As a result it will be internally motivated to adopt a practice transferred from the parent, a motivation that will lead to both implementation and internalisation (Kostova and Roth, 2002: 220).

3.5.3.4 Arduous Relationships

Szulanski (1996: 32) found that the arduousness of the relationship between the source and recipient was associated with knowledge transfer difficulty. An arduous

(laborious and distant) relationship might create additional hardship in the transfer. A transfer of a practice especially when it has a high tacit content may require numerous individual exchanges. Hansen (1999) demonstrated that the success of the transfer of a complex practice, such as a RBSIC, depends on the strength of the ties between the source and recipient. This is revealed through the ease of communication (Arrow, 1974) and the ‘intimacy’ (shared appreciation of the objectives and reasons for a RBSIC) of the overall relationship between the source unit and the recipient unit (Marsden, 1990: 455).

3.6.0 Factors that are Likely to Influence the Difficulty of Practice Transfer

Szulanski acknowledges that, in general, all practice transfers require some degree of effort; however, some require more effort than others. These are characterised by *internal stickiness* (Szulanski, 1996, 2003). Szulanski (1996) drawing on prior research suggests four sets of factors are likely to influence the difficulty of practice transfer, leading to internal stickiness, and identifies the following sub-variables within each set of factors.

3.6.1 Characteristics of the Practice Transferred

3.6.1.1 Causal Ambiguity

The first sub-variable is *causal ambiguity*. Causal ambiguity has been identified as an important factor affecting knowledge transfer (Nonaka, 1994; Grant (b), 1996; Spender, 1996). In this study it refers to ambiguity about what the factors are that

influence the institutionalisation of the RBSIC and how they interact so that the precise reasons for success or failure of a transfer are difficult to identify. The theory of uncertain imitability (Lippman and Rumelt, 1982; Rumelt, 1984) states that a completely successful re-creation of a practice is impossible since there is irreducible uncertainty that prevents a complete understanding of how the features of a new context affect the outcome of an attempt to re-create knowledge (Szulanski, 2003: 26). This could be indefinable tacit knowledge or imperfectly understood idiosyncratic features of the new context in which the practice is put to use that prevent it from working as effectively as it does in another context. Zander and Kogut (1995) found that explicit codified knowledge exhibited less causal ambiguity than less explicit knowledge. This is relevant to this research because the source of the knowledge claims that the knowledge being transferred relating to a RBSIC is both codified and explicit.

The greater the causal ambiguity, the more difficult it is to identify difficulties in the transfer of a practice. Causal ambiguity slows the transfer of a practice (McEvily, Das & McCabe, 2000: 294). Teece (1977: 259) found that companies incur higher costs when transferring poorly understood technologies. Cost can be measured in terms of both financial and time commitment. Assuming limited resources, the greater the demand for these factors the greater the likelihood that a practice transfer will be unsuccessful. Causal ambiguity also prevents a firm from learning from its own experience and improving its performance over time (March and Olsen, 1975; Headberg, 1981; Huber, 1991) negatively impacting on the value of the experience gained during previous transfers of the same practice. In this case the previous transfer of a RBSIC from the source to other subsidiaries and joint ventures.

3.6.1.2 Unprovenness

The second sub-variable is *unprovenness*. Individuals develop commitment to a practice to the extent that they see the value of the practice (Leonard-Barton, 1990 (a)). It is easier to transfer a practice with a proven record of past usefulness. This suggests that it has value, making it easier to induce potential recipients to engage in the transfer. When a practice has not been proven and its value is unknown, potential recipients may be reluctant to engage in its recreation leading to increased difficulties with the transfer (Rogers, 1983; Lennox, 1999). This can be especially problematical when the new practice is regarded as controversial and / or places a high demand on a recipient's resources. However, there are cases when recipients are unable to see the value in a proven practice because they lack the prior related knowledge to appreciate how it can be beneficial. This is directly related to the absorptive capacity of the recipient (Cohen and Levinthal, 1990). In addition it is possible that the recipient can see the value of a practice but does not believe it is relevant to its circumstances (Feinstein, 2002).

3.6.2 Characteristics of the Source of Practice

3.6.2.1 Motivation

The first sub-variable is *motivation*. The source's agent can assume two roles: First, allow the recipient access to the practice through direct observation. This may lead to the transfer of information that is not relevant in this instance reducing the efficiency of the transfer process (Brooks, 1995). Secondly, it can act the role of a gatekeeper

supplying the recipient with the knowledge regarding the practice that it deems appropriate. This raises the possibility that the information provided is insufficient for the recipient to institutionalise the practice.

The motivation of the source of the practice to supply conceptions of the practice or to facilitate access to the recipient may influence the degree of difficulty of practice transfer (Szulanski, 2003: 27). A practice source may be reluctant to share crucial information for fear of losing ownership, and the leverage that ownership gives it inside the group, which may be reflected in status and responsibility. It may resent sharing its hard earned achievements and feel it is being inadequately rewarded for the effort that it made to create the practice originally. Also the requirement that the source participate in the transfer may lead to the redeployment of resources to the extent that it is unable to fulfil its primary function leading to a corresponding demotivating affect on the source with regard to the transfer. The likelihood of a successful transfer will be increased if both the motivation for the institutionalisation of the practice is the same at both the source and the recipient (Szulanski, 1996). This will be easier to achieve if the source is able to provide the recipient with a satisfactory explanation of why the practice is to be undertaken. In the case of a RBSIC this would be to comply with Turnbull Guidelines and improve the performance of both the business unit and the entire company.

3.6.2.2 Perceived Credibility of the Source of the Practice

The second sub-variable is the *perceived credibility of the source of the practice*. If the source is seen as less than credible, then its knowledge may be regarded as less

valuable by the recipient, thereby negatively impacting the transfer process (Cummings, 2003: 30). If the source is seen as reliable, trustworthy or knowledgeable, initiating a transfer from that source will be easier and the practice it transfers is less likely to be contested and opposed. This should increase the amount of information that is exchanged (Carley, 1991). The trust that exists between the two parties can lead to the development of *social capital* – a productive resource that facilitates actions between the source and the recipient (Tsai and Ghoshal, 1998: 464) in this case increasing the effectiveness and efficiency of the transfer (Tsai and Ghoshal, 1998: 472) of the RBSIC. The cost of the transfer should also be reduced (Currall and Judge, 1995: 151; Zaheer, McEvily & Perrone, 1998: 152). A negative aspect of a credible source is that it may discourage the recipient from critical thinking due to its trust in the source (Petty and Cacioppo, 1996: 19); however, it is generally accepted that positive affects outweigh the negative by a considerable margin (Szulanski, 2003: 28).

3.6.3 Characteristics of the Practice Recipient

3.6.3.1 Motivation

The first sub-variable is *motivation*. If the recipient is reluctant to accept a practice from an external source it may manifest itself in a number of ways (Zaltman, Duncan and Holbek, 1973). Including a deliberate policy of slow adoption which may include actions such as constant questioning of every stage of the transfer process, failure to provide sufficient resources or insufficient training of relevant staff. At it most extreme a recipient may refuse to participate in the transfer. Also the recipient may

implement the practice while not taking the measures necessary for internalisation ensuring that institutionalisation does not occur. This could lead to *ceremonial adoption* - the formal adoption of the RBSIC on the part of the recipient unit's employees for legitimacy reasons, without their believing in its real value to the organisation (Meyer & Rowan, 1977; Kostava and Roth, 2002: 220).

The criteria used by headquarters to evaluate subsidiary performance are likely to influence what subsidiary / joint venture managers pay attention to and focus on in their operations (O'Donnell, 2000). The higher the perceived importance attached to transfer of a practice by headquarters, the greater the motivation at the recipient and the more likely a new practice will be successfully implemented (Björkman, Barner-Rasmussen, and Li, 2004: 450). Therefore, if the recipient perceives that the institutionalisation of a RBSIC is not a priority at the source it is unlikely to be particularly motivated to institutionalise the practice.

Other factors that may lead to the de-motivation of the recipient may include: The practice being transferred is perceived as a threat to its position either at a personal or organisational level; the recipient believes that a practice created outside the unit is of little value - what is often referred to as the 'not invented here' syndrome; and the recipient feels the practice is a drain on resources that could be better used elsewhere.

As stated previously the likelihood of a successful transfer will be increased if both the motivation for the institutionalisation of the practice is the same at both the source and the recipient (Szulanski, 1996). In addition Hamel (1991) observed that the

newness of knowledge could be a source of motivation for the recipient especially if it believes this new knowledge may offer ‘first-to-make’ premiums.

3.6.3.2 Absorptive Capacity

The second sub-variable is *absorptive capacity*. A recipient unit might be unable to exploit a practice because it lacks the absorptive capacity to do so. Absorptive capacity is an example of how *Contexts within which the Transfer Occurs* can overlap with *Factors that are Likely to Influence the Difficulty of Practice Transfer*. Here the absorptive capacity variable is more closely linked with the practice being transferred than the organisational context.

An organisations absorptive capacity will depend on the absorptive capacities of its individual members and its ability to exploit that combined capacity in relation to the practice being transferred (Cohen and Levinthal, 1990: 131). A lack of absorptive capacity is likely to slow the transfer and add to its costs increasing the likelihood of the transfer failing. This capacity is largely a function of the unit’s pre-existing stock of knowledge (prior related knowledge) and is particularly relevant in determining its ability to value, assimilate and apply new practices successfully to commercial ends. (Cohen and Levinthal, 1989: 569; 1990: 128).

Prior related knowledge is important because it shapes the way an organization differentiates between more and less relevant signals and also because it determines the organization’s ability to assimilate the more valued signals (Cohen and Levinthal, 1990). Relevant prior knowledge includes basic skills, a shared language, appropriate

experience, and up-to-date information on related knowledge areas (Cohen and Levinthal, 1990: 129; Galbraith, 1990: 66; Pennings and Harianto, 1992 (a): 356). Also of key importance is an awareness of the source of complementary expertise within and outside of the recipient unit (Nord and Tucker, 1987; Cohen and Levinthal, 1990; Pennings and Harianto 1992(a), 1992(b)). An example of this would be members of the recipient unit knowing who can help with both the implementation and internalisation of the RBSIC both inside the recipient unit and at the source and other units within the group.

The Turnbull guidelines allude to absorptive capacity when they state that all employees should have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal control (Turnbull, 1999, para. 19).

Particularly relevant to the transfer of a specific practice Lane & Lubatkin (1998) found that a recipient that has a large knowledge gap between it and the source would be less likely to assimilate the source's knowledge. They developed the concept of *relative absorptive capacity* where it is the relative knowledge of the recipient with respect to the source's knowledge (i.e., the extent of the knowledge gap between the parties) that is important. This is also consistent with Dinur, et al.'s (1998) findings with respect to the need for two parties to have some alignment in terms of their knowledge to facilitate knowledge transfer.

3.6.3.3 Retentive Capacity

The third sub-variable is *retentive capacity*. A transfer is only effective when the practice is retained and used when required (Kostova, 1999: 311). Evidence from research suggests this cannot be taken for granted (Glaser, et al. 1983; Rogers, 1983). The ability of a recipient to institutionalise the utilisation of new practice reflects its retentive capacity (Szulanski, 2003: 30). If this ability is lacking, initial difficulties during the integration of transferred practice may become an excuse for reverting back to the status quo.

Retentive capacity is more likely to be developed when the transferred practice is used on a regular basis, losing its novelty becoming part of the recipient's standard operating procedures (Rogers, 1983; Zucker, 1977: 740). This is more likely if action is taken to discontinue the use of old practices (Glaser, Abelson and Garrison, 1983; Yin, 1979) in this instance the previous system of internal control, if there was one.

The development of retentive capacity will also be influenced by the effectiveness of the early stages of the implementation process and the levels of on-going support provided by the source. Particularly important will be the degree to which the significance of the RBSIC and its role in the management of the MNE was explained to the recipient and to what extent the practice was documented allowing employees easy access to key information on the operation of the practice.

In addition, commitment to the practice is likely to increase the probability that the recipient will retain and make use of the RBSIC (Mowday, Steers & Porter, 1979)

both initially and on an on-going basis and make the necessary level of investment to develop competence in using the practice (Leonard-Barton, 1990 (a)).

3.6.4 Characteristics of the Context

As characteristics of context overlaps with Contexts within which the Transfer Occurs for the purposes of this framework it has not been included in Factors that are Likely to Influence the Difficulty of Practice Transfer.

3.6.4.1 Barren Organisational Context

The first sub-variable is a *barren organisational context*. Intra-firm exchanges of practices are embedded in an organisational context, the characteristics of which may affect their gestation and evolution (Szulanski, 2003: 30). A transfer that is successful in one context may not be in another. An organisational context that facilitates the development of transfers is said to be fertile while one that does not is said to be barren. This strongly overlaps with the Kostova's organisational context within which the transfer occurs.

3.6.4.2 Arduous Relationship

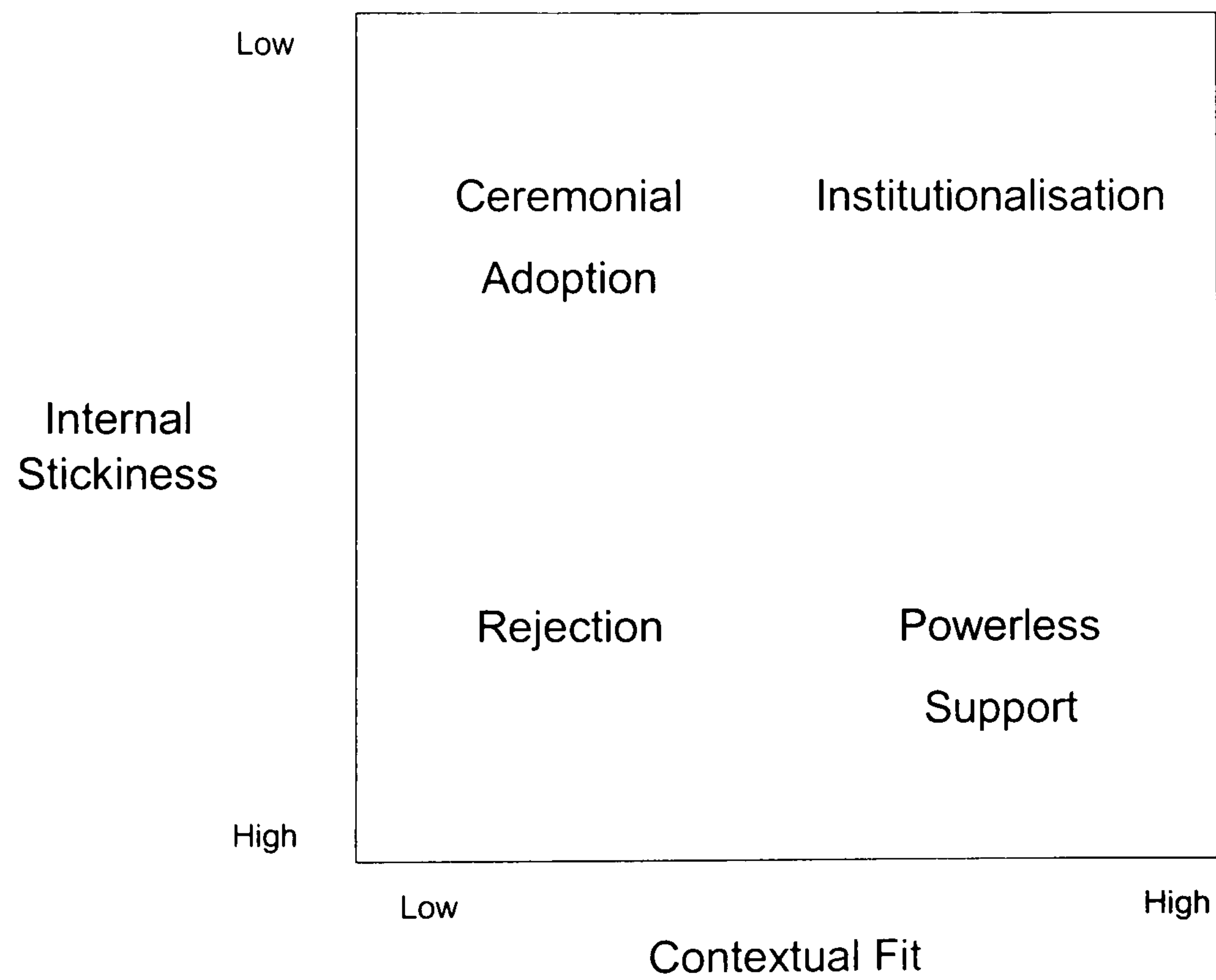
The second sub-variable - *arduous relationship* has for the purposes of this research framework been included in relational context within which the transfer occurs.

3.7.0 The Likelihood of the Successful Institutionalisation of a Turnbull Based System of Internal Control

Using the variables listed above a conceptual framework can be developed to predict the likelihood of an individual subsidiary or joint venture institutionalising a Turnbull based system of internal control. The position of a subsidiary or joint venture on a graph (Figure 3.5) with two multi-variance axis where the X-axis, *contextual fit*, refers to the fit between the RBSIC and the three variables - social, organisational and relational contexts within which the knowledge transfer between the MNE and the

Figure 3.5

Likelihood of the Successful Institutionalisation of the RBSIC



subsidiary / joint venture is embedded; and the Y-axis, *internal stickiness*, that refers to the variables that increase the difficulty of knowledge transfer between the MNE and the subsidiary / joint venture, that are directly related to the RBSIC, should

indicate the likelihood of a successful transfer of a Turnbull based system of internal control.

The appropriate weighting for the individual variables would require further investigation beyond the scope of this research.

Four patterns of adoption can be identified that reveal different levels of institutionalisation:

Ceremonial Adoption - If a subsidiary / joint venture is situated where both contextual fit and internal stickiness are low it suggests there will be low levels of internalisation and relatively high levels of implementation. This has been referred to as *Ceremonial Adoption* (Kostova and Roth, 2002: 220). In this case institutionalisation will not be achieved.

Institutionalisation - If a subsidiary / joint venture is situated where contextual fit is high and internal stickiness low it suggests there will be high levels of both internalisation and implementation and the RBSIC will be institutionalised.

Subsidiaries / joint ventures are both able to implement the RBSIC while believing in and recognising its value to the business unit.

Rejection - If a subsidiary / joint venture is situated where contextual fit is low and internal stickiness high it suggests there will be low levels of both internalisation and implementation. This suggests that institutionalisation of the practice in a subsidiary / joint venture will not occur as the recipient unit does not believe in or recognise the

value of the RBSIC and there may be insufficient capacity at the subsidiary / joint venture to implement the practice even if this were not the case.

Powerless Support - If a subsidiary / joint venture is situated where both contextual fit and internal stickiness are high it suggests there will be high levels of internalisation and low levels of implementation. The subsidiary / joint venture's employees believe in the value of the RBSIC but have failed to implement the practice. This may mean there is insufficient capability at the unit to permit its implementation. It also suggests that some degree of internalisation is possible without the successful implementation of the practice transferred. In this case institutionalisation will not be achieved.

3.8.0 Conclusion

This chapter has outlined the theoretical framework used in this research. It is grounded in a number of theoretical perspectives (e.g. socio-cultural, institutional) which underpin research in strategy transfer. In particular the theoretical approach is guided by the work of Kostova (1999) who effectively blends culturalism and institutionalism in examining the cross-national transfer of practices. To add greater analytical depth to Kostova's perspective, the current research employs Pettigrew's (1987) model for the analysis of strategic change. In this research change results from the transfer of an internal control system that follows the recommendations contained in the Turnbull guidelines. The transfer is considered from the perspective of the practice being transferred (Content), the context (Context) within which the transfer occurs in and factors that are likely to influence the difficulty of the practice transfer

(Process). This framework provided the theoretical and conceptual grounding for the research undertaken in the UK and Asia-Pacific region that is described in the following chapter.

METHODOLOGY and METHODS

4.0.0 Introduction

The first part of this chapter will detail the scope of the research and introduce the philosophical underpinnings, methods, processes and data collection techniques used during this investigation. The remainder of the chapter will describe the research process and the experiences of the researcher.

4.1.0 Scope of Research

The principle method of data collection was semi-structured interviews with senior management based in the Asia-Pacific region. Using the interviews combined with documentation provided by the companies two case studies¹ have been developed – one main case study, comprising of eight embedded case studies (Yin, 2003: 39-46) – Excelsior and a supporting case studies consisting of two embedded case studies - Landmark. Further data were provided by interviews with directors, corporate governance officers and managers based in the UK and Asia-Pacific region, who were not directly connected with the two companies. These interviews were used to gain extra information in what are politically sensitive areas of research. In addition, secondary sources including academic papers, books and news services were used as archived material to enrich the data and its context. They also served to validate partially the main interviews with key informants.

4.2.0 Choice of Research Methodology

Research methods, whether qualitative or quantitative, cannot be chosen solely in the abstract, because the choice and adequacy of a method embodies a variety of assumptions regarding the nature of knowledge and the methods through which this knowledge can be obtained, as well as a set of root assumptions about the nature of the phenomena to be investigated (Morgan & Smircich, 1980: 491). This section will consider the characteristics of the current research and discuss how these help guide the choice of research methods employed for this study.

4.2.1 The Theoretical Orientation of the Study

The two paradigms, positivism and social constructivism, represent two opposing approaches to the study of social science phenomena. Positivist approaches to the social sciences claim the label ‘scientific’ and are mostly (but not exclusively) associated with quantitative approaches to data collection and analysis. Positivists assume phenomena can be studied as objective facts, measured as discrete variables, and any relationships between these variables can be established as generalizable scientific laws (Smith, 1998: 77). Social constructionism has developed during the last fifty years largely as a reaction to the application of positivism to social sciences (Easterby-Smith et al., 2002: 29). It is largely associated with qualitative approaches to research and is one of a group of philosophical perspectives that Habermas (1970) referred to as interpretive methods. It is based on the ontological assumption that

¹ For reasons of confidentiality the names of the companies involved in the study cannot be revealed.

reality is subjective, socially constructed and determined by people rather than by objective and external forces.

The positivist view with its ontological position that reality is external and objective combined with an epistemological assumption that knowledge is only of significance if it is based on observations of this external reality is inappropriate for the purposes of this research. Management actions in subsidiaries and joint ventures are not always observable in an objective way, while social processes are rarely reducible to absolute laws. The emphasis of this research is on identifying, understanding and explaining to what extent the RBSIC has been institutionalised in the Asia-Pacific based subsidiaries and joint ventures of UK listed companies, and what are the factors that explain the degree of institutionalisation, rather than developing universal laws to explain the relative success or failure of the transfer of the practice in general. Unlike the standard positivist approach this research will not be emphasising the importance of reducing the units of analysis to their smallest terms but will be more concerned with analysing the 'whole' situation. It will be focusing on a relatively small number of subsidiaries and joint ventures and will not be using samples that are large enough for inferences to be made about the wider population by demonstrating causality or association through statistical analysis.

For the purposes of this research the social constructionist view, with its interpretivist approach, is also unsuitable. Its epistemological position that the task of the social scientist should be to appreciate the different constructions and meanings that people place upon their experience, focusing on how individual organisation members construct meaning (Blau & Schoenherr, 1971), does not allow for the consideration of

the role of what may be termed objective and external factors such as the operating environment faced by the subsidiaries and joint ventures. This research is based on the premise that subsidiaries and joint ventures are also influenced by an external objective environment that has observable consequences for their operations. In this sense, the research examines both agency and structure.

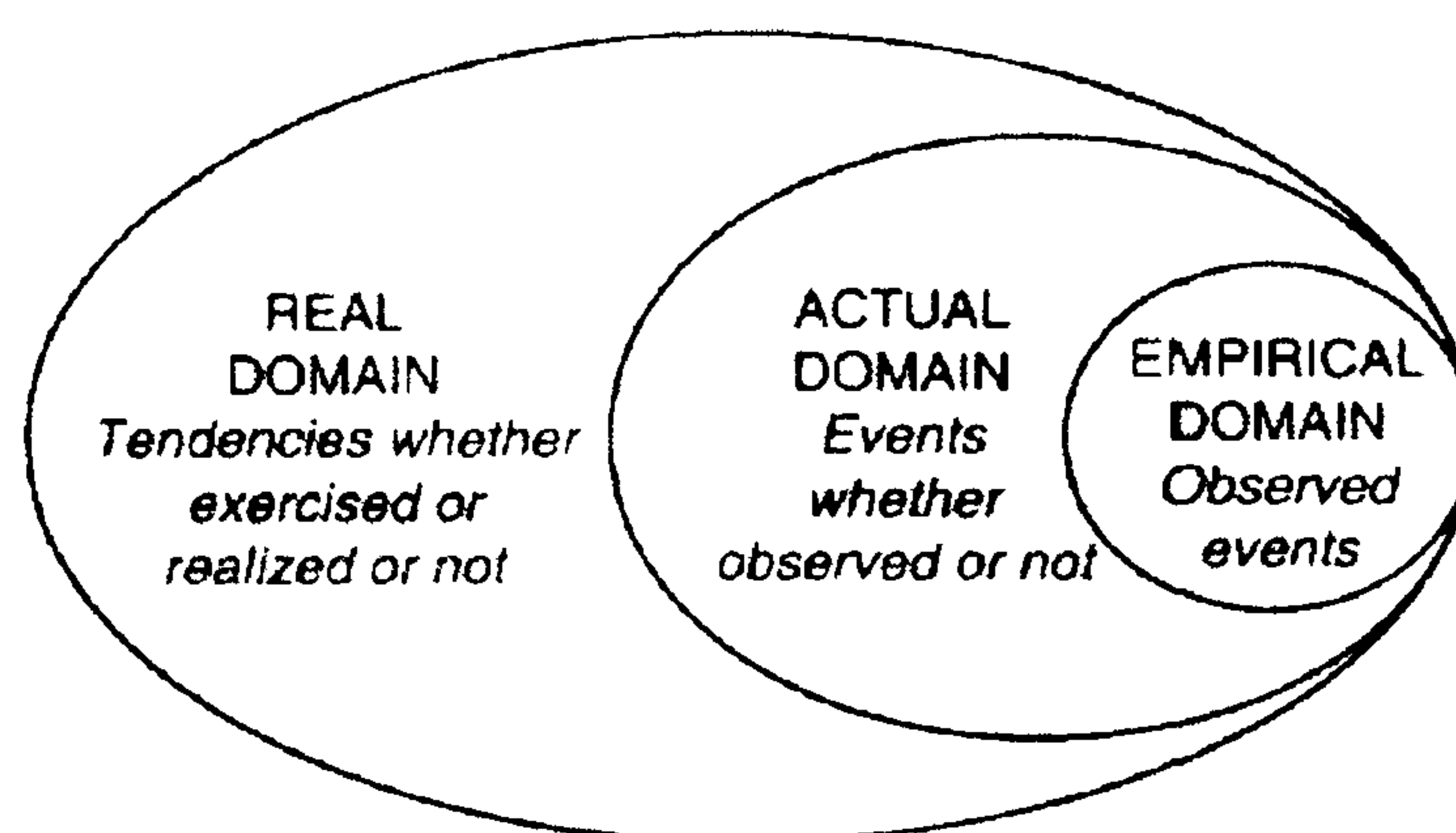
Agency could be seen as a constituent element of how managers made sense of and spoke about phenomena. They spoke in terms of 'making sense' of the practice and its transfer implying that the socially constructed nature of the phenomenon could not be ignored. However, at the same time, they spoke of external events and factors (such as local corporate governance rules and standards) as objective phenomena which also impacted upon their actions and decisions. This 'objective' structure also had to be taken into account. Such a combination of agency and structure presents researchers with a problem, since neither positivist nor social constructionist approaches are wholly adequate either in reflecting theoretical orientation or relevant data. As Whittington (1989:77) argues, "the plural and contradictory nature of the social structures embodied within the firm preclude unambiguous determination and allows sufficient autonomy for actors to choose which powers to use and how". Hence we can argue that relationships between agency and structure are likely to be fluid and probably mutually constitutive.

This confronts the researcher with something of a dilemma in the choice of research methods, given that the capture of both agency and structure is essential. Social structures provide the resources and context within which actors can exercise choices between alternatives which are presented to them. Both structure and agency must be

captured by the researcher. As Bryman and Bell (2003:468-470) argue, one of the ways in which this dilemma can be resolved (to an extent) is through the use of critical realism proposed and described by Bhaskar (1975). He argues that reality exists in three overlapping domains (see Figure 4.1) – empirical (experiences or observed events), actual (events whether observed or not) and real (underlying tendencies or mechanisms which may in a given situation give rise to events or may lie dormant, being cancelled out by other forces). Therefore, we should not reduce all events to those that are observed, and we should not reduce enduring causal mechanisms to events (Mingers, 2000). From the critical realists' perspective, reality exists independently of humans and is stratified. At the same time, social structures do not exist independently of the activities they govern or of the agents' conceptions of what they are doing, and are localised in both space and time.

Figure 4.1

Bhaskar's Three Overlapping Domains of Reality in the Critical Realist Ontology (Source: Partington, D. 2000)



Such a critical realist perspective allows the assumption that contexts/stimuli, meanings/cognitive processes and responses/behaviours can be treated as objective element in the study, whilst other elements may be accessible only through the subjective accounts of managers and other organisational actors. Finally, other

elements may only be uncovered through researcher speculation over casual tendencies, demanding further enquiry and verification (Partington, 2000: 98).

Given the orientation of the present study, critical realism seems a sensible and defensible choice of research orientation. For example, the research could identify relatively objective elements such as organisational structures, training, formal risk identification procedures and subsidiary / joint venture performance, as well as the nature and frequency of interactions between subsidiary and joint venture stakeholders (including employees, managers, parents, and the regulatory authorities). Other contextual elements included the political, legal, economic, cultural and historical environment within which the subsidiaries and joint ventures operate.

At the same time, managers in subsidiaries and joint ventures make choices (over for example how far to adopt procedures and codes of practice which emanate from Headquarters) and capturing both the nature and the characteristics of these choices lies beyond the purview of 'objective' study. The need is also to capture meaning, interpretations and actions of individual managers in the subsidiaries in making, as Whittington (1989) argued, autonomous choices between seemingly objective alternatives presented to them. Codes and practices may seem at first sight to be 'objective' but their interpretation and implementation in various contexts (such as subsidiaries) are as much influenced by socially constructed perspectives as they are by rules, codes and 'objective' measures. A critical realist perspective would seem to capture both the objective and the subjective by accepting neither a constructionist nor an objective ontology, arguing instead that the seemingly objective world of

organizations and their managers is influenced and changed through the practice of daily interpretation and life (Bryman and Bell, 2003:468).

4.2.2 Research Methodology

Given the underlying ontological and epistemological underpinnings of this research, the qualitative research process, where the researcher, who speaks from a particular class, gender, racial, cultural, and ethnic community perspective, approaches the subject of investigation with a set of ideas, which lead to a theoretical framework, which in turn generates a set of questions that are analysed in specific ways (Denzin & Lincoln, 2000: 18), is the most appropriate for this investigation.

Qualitative research is a situated activity that locates the researcher in the world. It consists of a set of interpretive, material practices that make the world visible (Denzin & Lincoln, 2000: 3). Qualitative research places an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined and measured. The particular strength of qualitative research, for both researchers and practitioners, is its ability to focus on actual practice in context, looking at how organisations are routinely enacted (Silverman, 1998: 3) this is particularly suitable for the research being undertaken. Qualitative methods can give a deeper understanding of the underlying processes taking place inside an organisation (King, 1996: 174) whereas purely quantitative research may neglect the social and cultural construction of the variables studied (Silverman, 1998: 4).

The processes and mechanisms being researched in this investigation occur in a specific context that will vary from business unit to business unit as the contexts within which the transfer occurs and the factors that influence the difficulty of transfer differ. By using qualitative methods and research strategies, primarily semi-structured interviews, textual analysis and case studies (sections 4.5.0 – 4.6.10), this research is able to capture some of the richness and depth of frequently complex organisational structures generating insights into the factors that have influenced the degree to which the RBSIC has been institutionalised.

4.3.0 Research Access

The biggest problem likely to confront a researcher analysing issues relating to corporate governance is that of access. Unsurprisingly, companies are very reluctant to share any information relating to their corporate governance practices beyond the limited statements made in their annual reports. This section will consider some of the potential issues that are most likely to result in difficulty in gaining access to UK companies' Asia-Pacific based subsidiaries and international joint ventures when researching into the institutionalisation of a RBSIC. Where appropriate reference will be made to the actual difficulties faced by the researcher. A detailed description of the access difficulties that arose during this research is contained in section 4.6.2.

4.3.1 Initial Approach

A researcher's initial approach to a company or individual to request research access will play a key role in the likelihood of receiving a positive response. This is particularly important in a sensitive area such as corporate governance where the decision to permit access to a company will be taken at the highest levels of the organisation. An unsolicited letter explaining the project and requesting access sent to an individual, or in the case of a company, the Chief Executive or Chief Financial Officer is unlikely to be favourably received and may not even get a response. The researcher is more likely to be successful if an introduction is made through an intermediary who is known to the company's senior management and can vouch for the integrity of the researcher. Finding someone who can act in this role is one of the challenges faced by the researcher when commencing a new project, possible avenues include university colleagues (students and faculty) who may have appropriate connections, professional relationships developed previously either on other research projects or at a time when the researcher was involved in a different career, and personal contacts. In this project the researcher was able to use a former work colleague to make introductions for him.

4.3.2 Access and Corporate Sensitivity

Given the high profile attached to corporate governance following the collapse of Enron in 2001, and the subsequent failures of other large companies, the topic has become increasingly high profile and sensitive in nature. This has made companies increasingly reluctant to provide access to researchers who may uncover information

that could be potentially embarrassing. Those companies that are prepared to grant access are more likely to require researchers to sign confidentiality agreements that bar the use of certain information they may regard as too sensitive for publication. They may also insist that it is not possible to identify the company from any documents (academic papers, books, etc.) that may be published relating to the research. This may limit the value of the company as a research subject unless the confidentiality agreement is carefully drafted enabling both parties to achieve their objectives.

4.3.3 The Stance of the Researcher toward the Subject of the Research

UK listed companies are required by the Combined Code to include in their annual report a statement that the board has conducted a review of the effectiveness of the company's system of internal control. The Turnbull guidelines were designed to provide companies with recommendations on how to design and implement such a system. The statement normally gives a brief summary of how the system of internal control operates and includes a paragraph similar to the examples shown below:

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the Annual Report and Financial Statements and accords with the Turnbull guidance. The effectiveness of the process is reviewed annually by the Audit Committee which then reports to the Board.

Sainsbury PLC² Annual Report and Financial Statement, 2004: 11

² J. Sainsbury PLC and Smith & Nephew PLC are not among the companies used in this study

In 2003, an independent assessment was carried out of the risk management framework established by the Group. This confirmed that the risk management system in place complied with the guidance in the Turnbull Report, a guidance report issued by The Institute of Chartered Accounts in England and Wales to assist companies listed on the official list of the London Stock Exchange to implement the requirements of the Combined Code on Corporate Governance.

Smith & Nephew¹ Annual Report & Accounts, 2003: 49

By investigating the extent of institutionalisation of the Turnbull guidelines the researcher may be seen by the company as challenging the validity of the statement that appears in their annual report with regard to internal control. Companies may become concerned that should it become public knowledge that a researcher's findings are not consistent with the annual report that they may have to justify their position to the London Stock Exchange (LSE).

4.3.4 Operating Procedures

Companies may see their system of internal control as a source of competitive advantage and may not be prepared to allow a researcher access to the system fearing that other companies may be able to copy their approach should the researcher reveal too much about its workings. The researcher failed to gain access to one of his target companies for this reason (see section 4.6.2).

4.3.5 Access to Senior Personnel

Research into corporate governance frequently requires access to a company's senior management. Senior staff normally have very busy schedules commensurate with their level of responsibility. This can lead to problems in scheduling meetings even when a general agreement to permit access has been reached. In this investigation the researcher frequently found that executives were unwilling to commit themselves to interviews more than two weeks in advance and when interviews were scheduled further ahead they would often be rearranged sometimes at short notice. This added both to the logistical and financial burden faced by the researcher who was often travelling long distances to meet with the interviewee.

4.3.6 Overseas Research

When a large part of a research project is undertaken overseas, in the subsidiaries and joint ventures of a company, a number of difficulties can arise. First, although permission for research has been granted by the company's headquarters based management the approval of senior management at the regional and local level is also normally required. This may be time consuming and require a considerable amount of explanation as to the purpose of the research to assuage any fears local management may have about the affect it could have on the their own position and the business unit in general. Once access has been granted difficulties may arise scheduling interviews with appointments becoming harder to arrange especially if they are more than a few weeks in the future (see section 4.3.5)

Secondly, overseas research with the travel and accommodation costs it involves can be costly and most researchers are operating within a limited budget. This can cause problems when the researcher is trying to arrange his or her schedule in the most cost effective manner and companies are unable to work within the same schedule. This can lead to the researcher, who is normally in a very weak bargaining position, having to compromise resulting in either or both additional costs and meetings with different people than originally planned.

Thirdly, generally the researcher will only be able to spend a certain amount of time in the region due to both cost and time constraints. Also while in the region the researcher will need to arrange accommodation and access to necessary facilities – office space, Email, research facilities. This can often be arranged, at least in part, through a local university. However, the researcher needs to be aware for much of the time they will be operating a long distance from their home base and may need to rely to a greater extent than normal on their own resources.

Fourthly, language and cultural differences can also lead to difficulties. It may be necessary to arrange for an interpreter to be present at interviews and the nature of interviews may need to be adapted to fit with the local culture. In some countries to commence the interview immediately without first spending some time talking about yourself and finding out about the person being interviewed would be regarded as rude and insensitive.

In this research difficulties included the possibility of the project being cancelled following internal disagreement at the regional headquarters level as to whether the

research should be permitted. This was a result of poor internal communication that failed to make all of the interested parties aware of the planned research. This was only resolved after the successful intervention of UK based headquarters staff. The scheduling of interviews also proved difficult with executives unwilling to commit themselves more than a few days in advance adding considerably to the researchers travel expenses. Also, although the researcher did not encounter any language difficulties different cultural attitudes to the research primarily associated with 'trust issues' required longer interviews where considerable effort was made to allay any concerns the interviewee may have regarding the purpose of the research.

4.3.7 Lack of Understanding

Although the researcher often believes their area of research to be of interest, and would expect the company to be knowledgeable about the subject, this is not always the case. Corporate governance is a poorly understood area in many companies often seen as the responsibility of the company secretariat, finance department or internal audit, and even then a very specific section of those departments. This can lead to misunderstandings about the planned research or the subject itself by the people who control access. An example of this was provided by the Finance Director of a company approached to provide research access. He sent the researcher a personal letter saying:

*As you will appreciate Turnbull is driven by risk identification and materiality. Here at ***** our ASEAN businesses, which are purely selling companies, don't come on to our Turnbull radar screen because of their size. Japan accounts for 6% of our*

sales, and the remaining ASEAN businesses only 2%. Our Turnbull risks and responsibilities are virtually all centred on our principal development and manufacturing sites in the US and the UK, and our UK Head Office.

*Thus I really don't think it would be worth your and our while, to pursue your research through *****.*

This letter demonstrated a lack of understanding of the Turnbull process itself given that Japan and the ASEAN region represented sales of £94.3 million³ in fiscal year 2003. An amount that is surely material to the company.

4.4.0 Data Gathering

The principle data collection method used in this research was a semi-structured interview. In this section the reasons for using this approach to data gathering will be discussed. Consideration will also be given to the sources of data used to support the semi-structured interviews.

4.4.1 Semi-Structured Interviews

Kvale (1996: 5) defines a semi-structured interview as:

“an interview whose purpose is to obtain descriptions of the life world of the interviewee with respect to interpreting the meaning of the described phenomena.”

³ Most recent annual report

It can provide the 'time-constrained' researcher with a more immediate way to develop an understanding of what is happening than would be the case if he or she were to simply observe behaviour (Robson, 2002: 272).

A semi-structured interview is neither an open conversation where there is a risk that the interviewee will only discuss issues of personal interest nor a highly structured questionnaire administered by the interviewer where the same questions are asked of all the interviewees, and there is a possibility that the interviewer will impose their own reference frame upon the discussion (Blaxter et al, 2001: 171). Structured interviews may also lack the flexibility necessary to allow the views of the interviewee to be explored while open conversations lack the structure necessary for comparability.

By using the semi-formal guided approach adopted in semi-structured interviews, where the interview is conducted according to an interview guide that focuses on certain themes that may include suggested questions, the researcher has some control over the direction of the interview (introducing an element of bias), ensuring a level of consistency over all of the interviews, while encouraging the interviewee to discuss a topic freely and bring forward issues they find important, providing a more vivid account of their personal experiences (Burgess, 1982: 107, Kvale, 1996: 34).

The purpose of the semi-structured interview in this research was to elicit a description and understanding of the central themes experienced by the subjects relating to the transfer of a RBSIC allowing the interviewer to describe and understand the central themes at both a factual and meaning level. The subject

describes as precisely as possible what they experience and feel, and how they act. The focus is on nuanced descriptions that depict the qualitative diversity, the many differences and varieties of a phenomenon, rather than ending up with fixed categorizations (Kvale, 1996: 32). On the basis of extensive and rich descriptions of specific situations from the interviewees the interviewer will be able to arrive at meanings on another level. The aim of the interview is not to end up with unequivocal and quantifiable meanings on the theme in focus. What matters is to describe precisely the possible ambiguous and contradictory meanings expressed by the interviewee reflecting contradictions in the world the subject lives in (Kvale, 1996: 34).

As is the case with all research methods a number of limitations have been identified in using semi-structured interviews. They include the possibility that a lack of standardisation can raise concerns about reliability. The risk that the questions reflect the biases of the interviewer to the extent that the data gained is flawed. The short exposure to the interviewee prevents the researcher from gaining a full understanding of their views leading to answers that can be of questionable validity. It is the responsibility of the interviewer to reduce the likelihood that these problems will occur.

For the purposes of this research it was agreed with all parties that interviews would not be tape recorded as it was felt that taping would be regarded as intrusive (Robson, 2002: 289) and most participants would be more inhibited in their opinions when being recorded (Walsham & Sahay, 1999: 43). this was most likely to occur in the lower trust Asian societies where there was insufficient time to develop relationships

with the interviewees (Fukuyama, 1995, Thorelli, 1986) and where suspicion regarding the research process was likely to be greater. Also it was suggested that senior management at the companies were uncomfortable with the existence of taped records of the meetings.

During all of the interviews the researcher made detailed notes, in all cases, these were written up within 24 hours of the interview. In addition field notes were produced covering the researcher's experiences and data gathered in each subsidiary or joint venture.

4.4.2 Other Data Sources

Other sources of data that are available to complement and support the semi-structured interviews used in this research include field notes written after every company visit; company documents – procedures manuals, board papers, ethical codes, risk assessment documents, financial reports and internal memos; corporate governance documents – produced by the relevant regulatory body and other external sources; academic publications – books and papers; and texts produced by news services and the mass media.

The data gained from analysis of these documents provide a method of triangulating and cross-checking some of the interview data, supporting or questioning its validity. However, it should be noted that there is always a possibility of bias in documentary data. Company documents may reflect the agenda of the author highlighting strengths while underplaying weaknesses. Corporate governance documents are prone to

promote the benefits of the procedures they are recommending while understating the disadvantages and academic papers and books are likely to reflect the position of their author.

4.5.0 Case Studies

The data gathered in the semi-structured interviews combined with textual analysis was used to develop one main case study, containing eight embedded case studies and one smaller supporting cases containing two embedded cases. In this section the reasons for using the approach will be discussed.

For the purposes of this research a case study is defined as:

A strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence especially when the boundaries between the phenomenon and context are not clear. (Robson, 2002: 178; Yin, 2003: 13)

A case study is a research strategy which focuses on understanding the dynamics present within single settings (Eisenhardt, 1989: 534). It is used to consider contextual conditions – believing that they might be highly pertinent to the phenomenon of study (Yin, 2003: 13). It is not a method; it is a choice of what is to be studied that can use a variety of methods, either singularly or together (Stake, 2000: 435). It is empirical as it relies on the collection of data about what is going on in a particular case. Case studies typically combine data collection methods such as

archives, interviews, questionnaires, and observations. The evidence may be qualitative, quantitative, or both (Eisenhardt, 1989: 535).

A case is focused on a contemporary phenomenon within its real-life context (Yin, 2003), it is a specific, unique, bounded and integrated system with working parts (Stake, 2000: 436). When developing a case particular attention will be paid to the nature of the case, the case's historical background, the physical setting, other contexts (e.g economic, political, and aesthetic), and the informants through whom the case can be known (Stake, 2000: 438). A case is not independent of interpretive paradigm or methods of inquiry. Seen from different worldviews and in different situations, the 'same' case is different (Stake, 2000: 449).

Yin (2003: 3) distinguishes between three types of uses for case study research – exploratory, descriptive and explanatory. Kjellen and Soderman (1980: 30 – 36) refer to two other types of uses – theory generation and initiating change. This study, in line with Gummesson (2000: 86), believes it hard to consider these uses in isolation. Exploratory studies as well as descriptions can be theory generating, descriptions may be explanatory, and so forth (Gummesson, 2000: 86). Therefore, a more holistic approach has been adopted where detailed observations by the researcher make it possible to study the phenomenon from different aspects, examining them in relation to one another while viewing the practice within its total environment.

As previously stated this research is centred on one main case – Excelsior. The justification for researching a single case is usually made in terms of richer, deeper, thicker, more holistic descriptions of a particular situation that reveal a new

phenomenon, test particular concepts or frameworks or provide explanations of particular events (Easton, 2003: 11). However, this approach is questioned by many academic researchers who are supportive of the study of case studies only if there is a clear expectation of generalizability to other cases (Denzin, 1989; Glaser & Strauss, 1967; Herriott & Firestone, 1983; Yin, 2003). They promote the belief that intrinsic case studies⁴ are not as important as instrumental case studies⁵ from which generalisations can be derived.

Yin (2003: 39 – 46) identifies four types of case study design, the underlying dimensions being single v. multiple cases and unitary unit of analysis v. multiple units of analysis. This research uses the approach he calls a single-case (embedded) design this refers to a single case where attention is given to more than one unit of analysis. The sub-units or embedded cases can often add significant opportunities for extensive analysis and comparison, enhancing the insights into a single case (Yin, 2003: 46). In the case of Excelsior, one organisation is being studied but eight subunits (embedded cases) are being analysed – Asia-Pacific Headquarters, Australia, Japan, People's Republic of China, Hong Kong, Malaysia, Singapore and Thailand. They are clearly identifiable units of analysis within the case boundary and can be regarded as eight case studies within an overall case study (Eason, 2003: 12).

A case study report can be written up in many ways (Robson, 2002: 511). Following Langley (1999) in this project the researcher is obliged to combine historical data

⁴ The *intrinsic case study* is undertaken when a researcher has a desire to gain a better understanding of a particular case. The case itself is of interest. (Stake, 1995, 2000)

⁵ A case is an *instrumental case study* when research is undertaken because of the need for general understanding gained through insight provided by the study of a particular case. The case is examined mainly to provide insight into an issue or redraw a generalisation. The case is of secondary interest, it plays a supportive role, and it facilitates our understanding of something else. (Stake, 1995, 2000)

collected through the analysis of documents and retrospective interviews with current data collected in real time. While the first type of data is sparse and synthetic, focusing on memorable moments and broad trends, the second is richer and finer grained (Leonard-Barton, 1990 (b)). Pettigrew's longitudinal contextual case study, which complements his model for the analysis of change (see 3.2.0) providing the opportunity to examine continuous processes in context where processes are defined a sequence of individual and collective events, actions, and activities unfolding over time (Pettigrew, 1997: 338), was not appropriate for this study given the short period of time between the introduction of the RBSIC and the data gathering phase. The term 'case study', therefore, in the current research does not imply any longitudinal dimension. Partly, this is because of the short period between the introduction of the RBSIC and the data collection. More importantly, it should be noted that the axes of Pettigrew's triangle (content, context and process) are utilised in this research as key labels under which characteristics of the transfer process may be described. There is no attempt to try and examine the development and inter-relation of the constructs over time (as in a 'pure' longitudinal study). The cases are descriptive of operations and the current state of play in the sample organisations. Nevertheless, the questions asked in the semi-structured interviews and the analysis of the data corresponds to the three constructs of content, context and process. Therefore, in this study each case study commences with a brief description of the company followed by a review of the operation of the RBSIC in the company. It then goes on to describe each of the Asia-Pacific business units involved in the study including a discussion on the operation of the RBSIC in the organisation and the degree to managers involved with the practice believe it is institutionalised in the operations of the business unit.

4.6.0 Research Process

This section will consider the research process undertaken during this investigation commencing with an acknowledgement of my personal interest in the subject, moving on to data gathering and analysis.

4.6.1 Personal Interest and Research Relevance

My personal interest in this research topic comes from my previous experience of working in a UK listed company's Asia-Pacific and North American based joint ventures and subsidiaries. During this time I held a number of senior positions, including managing director, which gave me the opportunity to observe the difficulties faced by the parent company when trying to transfer an organisational practice relating to internal control to a subsidiary / joint venture. This was particularly apparent in the Asia-Pacific region. Since this time the importance of internal control as part of the corporate governance agenda has grown considerably following a number of high profile corporate scandals commencing with Enron in 2001. Inside the Asia-Pacific region the importance of corporate governance had already been highlighted when it was identified as one of main causes of 1997 Asian economic crisis (ADB, 2000). To date very little research has been undertaken with regard to the transfer of corporate governance practices by UK listed companies to their Asia-Pacific subsidiaries and joint ventures. Given the growing importance of the region and the growing debate on internal control in listed companies I believe this is a topic worthy of further research.

4.6.2 Access

Following the identification of the key research questions (see Chapter 1), in June 2002, the first task faced by the researcher was to organise access to the headquarters and Asia-Pacific based subsidiaries and joint ventures of a sufficient number of appropriate UK listed companies.

After a search of the annual reports of over one hundred UK listed companies twenty were identified as suitable research subjects. This was based on the size of the business they had in the Asia-Pacific region and whether their operations in the region were structured as subsidiaries and joint ventures. Letters requesting access and outlining the research process were sent either to the Chief Executive Officer / Managing Director or Chief Financial Officer / Finance Director of each company depending who was deemed the most appropriate. Of the twenty all declined to participate in the study.

In July, 2003, following the failure of the initial access strategy a new approach was tried. An introduction was made on behalf of the researcher by an intermediary who was known to the company's senior management and could vouch for the integrity of the researcher. Four companies were approached in this fashion.

The first introduction made through Warwick Business School put the researcher in contact with the Marketing Director of a major UK company; he passed the details on to the company's Finance Director who asked the Head of Group Audit to contact the researcher. This led to a meeting in September 2003 at the company's corporate

headquarters. What followed was an embarrassing experience for both sides. Upon the completion of the usual pleasantries, where shared interests were identified⁶, the Head of Group Audit, accompanied by one of his managers, explained that he was not sure of the reason for the researchers visit as they had lost the relevant documentation. When it was explained to him, he responded that given the confidential nature of the subject and the company's belief that their system of internal control played a key role in their competitive strength, he was sure the Board would not support the project and the company would be unable to provide any assistance to the researcher.

The other three introductions to Excelsior, Landmark and Peninsula⁷ were made through a former work associate of the researcher who serves on a number of boards in a non-executive capacity. Arrangements were made to contact the Finance Directors of all three companies with the objective of explaining the aims of the study, how it could benefit the companies that participate in it and getting permission to undertake research at their UK headquarters and Asia-Pacific businesses.

4.6.2.1 Excelsior

The researcher had a lengthy telephone conversation with the Finance Director of Excelsior at the end of July, 2003. During this conversation he agreed to provide the researcher with access to both headquarters and Asia-Pacific personnel, although in the case of Asia-Pacific the agreement of the regional Chief Executive would also be required. He also stated his expectation that the findings of the research would

⁶ Both the researcher and the Group Audit Manager supported the same football team and had seats relatively close together.

⁷ For reasons of confidentiality the real names of the companies cannot be revealed.

provide Excelsior with valuable data. It was agreed that the next step was for the researcher to meet the Head of Group Audit who was responsible for the RBSIC throughout the company and would be the researcher's main point of contact with Excelsior. Following an exchange of Emails between the researcher and Head of Group Audit a meeting was arranged at the beginning of September, 2003.

4.6.2.2 Landmark

The researcher met with the Finance Director of Landmark during September, 2003, he agreed to grant the researcher access and provide a list of names of the relevant personnel in the UK he should meet with. Included in this list was the Director of International Market Development who would arrange access to Landmark's Taiwanese and Hong Kong joint ventures. The first meeting at the Landmark corporate headquarters was scheduled for mid-October, 2003 with the Group Director of Risk Management and the Group Manager of Risk Management who would explain how the Turnbull guidelines were followed in Landmark.

4.6.2.3 Peninsula

The meeting with the Finance Director of Peninsula took longer to arrange, than was the case with the previous two companies, taking place in mid-November, 2003. At the meeting it was agreed the researcher could undertake research in Peninsula's Japanese subsidiary. A meeting was also arranged for December, 2003, with the Head of Group Audit, who would explain how the company followed the Turnbull recommendations and how they operated in Japan from the headquarters perspective.

4.6.3 Access Summary

Despite considerable difficulties all three companies were suitable research subjects because all they had a UK stock market listing, operated business units in the Asia-Pacific region and although at different stages in the implementation of the RBSIC had clearly stated their commitment to the practice and their intention for it to become institutionalised throughout the organisation.

Gummesson (2000: 25) described gaining access as the researcher's number one problem. This was clearly the case in this research both in terms of gaining access and also meeting with the appropriate informants who could provide the depth and quality of data required. In line with the experience of Easterby-Smith et al (2002: 72) the researcher found that initial requests for access by an unsolicited letter were unsuccessful and personal introductions were needed for access requests to be considered. However, the researcher saw little to support Easterby-Smith et al's (2002: 71) suggestion that there was a growing acceptance of the value of in-company research projects – possibly because a growing number of middle managers have been to business schools themselves.

The researcher was fortunate that his initial point of contact at the companies that agreed to his request for access were all main board executive directors with a sufficient level of authority to be able to grant access without the need to refer the decision to higher management levels. Although, in two cases, Landmark and Peninsula, the researcher was told that the main board in both companies had been made aware of his research. This differs from the experience of many researchers

whose initial point of contact is a manager with insufficient autonomy to authorise the research, who has to be convinced of its value, so that she or he in turn can 'sell' the proposal to senior management who will ultimately grant or refuse access (Easterby-Smith et al, 2002; Gummesson, 2000).

Easterby-Smith et al (2002:72) state that access is more likely to be granted if the project does not appear to be politically sensitive, the researcher and his or her institution has a good reputation and time and resources requested are minimal. This is supported by Robson (2002:378) who highlights the difficulties researchers can incur when analysing politically sensitive issues and by Blaxter et al. (2001: 155) who recommend researchers keep the initial requests for time and resources to the minimum.

This research only met one of the three criteria listed above the reputation of the researcher was vouched for by his former work colleague and the excellent reputation of the institution – Warwick Business School – was also well known to all of the companies. The other two criteria were clearly not met. The research involved a highly politically sensitive topic and the researcher felt it was inappropriate, as well as impractical, to mislead the companies as to the substantial level of resources and time the project would require from them.

Finally, the researcher made clear to the companies the benefits that could be gained from allowing the research to take place and agreed to provide the individual companies with a report detailing his findings. By demonstrating the clear value of the project to the companies involved the researcher was fulfilling another key

requirement for as access identified by many academics including Blaxter et al. 2001; Easterby-Smith et al, 2002; Gummesson, 2000; and Robson 2002.

4.6.4 Confidentiality

For all three companies arrangements were made for confidentiality agreements to be put in place that guaranteed the anonymity of the companies and the individuals interviewed. These were signed by both parties before data gathering commenced. It was also agreed that the data gathered could be used in any future papers the researcher may publish. Given the nature of this research, the inability of the researcher to name the companies and individuals involved, or describe in detail the operations of the companies, will have no detrimental impact on the research findings.

4.6.5 National University of Singapore

While access was being agreed with Excelsior, Landmark and Peninsula the researcher visited Singapore to make arrangements with the National University of Singapore (NUS) to be based at the university as a *Visiting Scholar* for the first six months of 2004. This would provide the researcher with office space, computing and research facilities. Singapore's location and outstanding air links also simplified the task of travelling around the region. Arrangements were also made to provide the researcher with university accommodation.

4.6.6 Initial UK Based Data Gathering

The initial meetings at the three companies were to serve as pilot interviews where the feasibility of the research project could be tested, question refined and arrangements made for visiting their Asia-Pacific subsidiaries and joint ventures.

4.6.6.1 Excelsior

During a meeting held in September, 2003 the Head of Group Audit identified business units the researcher could visit in the Asia-Pacific region. It was also agreed that the Head of Group Audit would contact the Chief Executive of the Asia-Pacific region to obtain his permission for the research to be undertaken. This was given in October.

The Head of Group Audit explained the role of the RBSIC in Excelsior and how it had been introduced throughout the Asia-Pacific region. He also gave the researcher a number of relevant documents relating to the RBSIC and the company's ethical policy (Appendix 2).

Another meeting took place the following month with the Group Audit Manager responsible for the RBSIC outside of the UK. During this meeting the researcher and the Group Audit Manager discussed the practice and the main issues relating to the transfer of the RBSIC to the company's Asia-Pacific subsidiaries and joint ventures. The researcher was also given copies of documents that are produced for Excelsior's

main board identifying the principal risks faced by the company that have been identified as a result of undertaking the RBSIC throughout the company.

The Group Audit Manager also agreed to contact the General Manager for Risk for the Asia-Pacific region, who is based in Excelsior's regional headquarters in Australia, and would be making the arrangements for the researcher to visit the company's business units in the region. Once this introduction was made it was agreed the researcher would decide with the Asia-Pacific General Manager for Risk which business units should be visited and the timetable for the visits.

During December the researcher had a lengthy telephone conversation with the Asia-Pacific General Manager for Risk during which the researcher was told that the Finance Director had given instructions that everything should be done to assist the researcher with the project. It was agreed that a timetable for the visits would be decided in January, 2004, once the researcher had arrived in Singapore.

4.6.6.2 Landmark

During the October – December period the researcher had four meetings at the Landmark headquarters with five senior members of staff (see Table 4.1 for the list of people interviewed). During these meetings the RBSIC in Landmark was explained and supporting documentation was given to the researcher. The researcher also met the directors responsible for establishing the joint ventures in Taiwan and Hong Kong gaining an understanding of the rationale for their creation.

The researcher also met with the Director of International Market Development who was responsible for the RBSIC in the Taiwanese joint venture. He suggested the researcher visit the Taiwan and Hong Kong offices in March, 2004. This would be confirmed nearer the time.

4.6.6.3 Peninsula

The researcher met with the Head of Group Audit in December during the meeting the researcher was given a thorough overview of how the RBSIC had been implemented in the UK and Asia-Pacific region. He was also provided with a copy of the company procedures manual that included a section relating to Turnbull and internal control. It was also agreed that the researcher would visit the Peninsula Tokyo office either in January or February, 2004. This would be confirmed in early January.

Table 4.1

Initial UK Based Interviews

Company	Role
Excelsior	Head of Group Audit
Excelsior	Group Audit Manager (Responsible for International Implementation of the RBSIC)
Landmark	Business Development Director (Group)
Landmark	Director of International Market Development (Group)
Landmark	Director of Risk Management (Group)
Landmark	Finance Director (Divisional)
Landmark	Manager Risk Management (Group)
Peninsula	Finance Director (Group)
Peninsula	Head of Group Audit

4.6.7 Theoretical Framework and Interview Themes

By January, 2004 a theoretical framework had been designed that would provide the basis for the research (see Chapter 3). This involved the development of a conceptual and theoretical understanding of the phenomena to be investigated. A thematic understanding of the topic was required to provide a basis for the design of fifty-two questions (Appendix 3) that were developed around the central themes of the theoretical framework (Kvale, 1996: 95) to answer the four questions underlying the research (see Chapter 1). They were used by the researcher as an interview guide and unseen by the interviewees providing the basis of the semi-structured interviews that were used during the Asia-Pacific data gathering phase of the project. It was not the objective of the researcher to ask all of these questions but to use them where appropriate (Robson, 2002: 270) with the objective of achieving a degree of consistency in the interviews. As previously stated should the interviewees wish to discuss a topic that was relevant to the research but not covered in the questions they were encouraged to do so.

4.6.8 Asia-Pacific Based Data Gathering

Three weeks before his departure to Singapore NUS contacted the researcher to inform him that the offer of accommodation made the previous September had been withdrawn. Apparently, the researcher did not qualify to stay in NUS accommodation and the offer had been an 'administrative error'. This meant that the researcher arrived in Singapore without a place to live. After ten days in a hotel he was able to rent a room near the university. However, the cost was twice that originally agreed

adding to the pressure on an already limited budget. This provides a good example of the type of problems that a researcher can encounter when working in an unfamiliar environment a long distance from home base (see 4.3.6)

Once the researcher had established himself at NUS he contacted Excelsior, Landmark and Peninsula, his experiences with each company, while in the Asia-Pacific region, are described below.

4.6.8.1 Peninsula

The first company visit planned by the researcher was to have been to Peninsula's Tokyo office in either January or February. Contact was made with the Head of Group Audit in early January when it was agreed the visit would take place during the second week of February. However, in late January the Head of Group Audit contacted the researcher to tell him that the Finance Director for the region, who was based in Tokyo, had left the company and as the Financial Controller had already resigned a decision had been taken by headquarters to stop all non-essential visits to the office. This included the planned visit by the researcher. Given the difficulty of recruiting suitable personnel for the positions (Japanese with fluent English and an understanding of Western preferably British accounting procedures) it would not be possible for the researcher to visit the company until the later part of 2004. This was later extended to 2005 beyond the time limit for the project.

This was a serious, but manageable loss, as long as the other two sets of company visits proceeded as planned. Also the data provided during the two meetings at

Peninsula's corporate headquarters provided a considerable amount of relevant information.

4.6.8.2 Excelsior

The planned data collection at the subsidiaries and joint ventures of Excelsior also encountered a serious unexpected problem that could have led to the abandonment of the entire research project.

Following the researchers' arrival in Singapore he contacted the Excelsior General Manager for Risk and agreed he would visit the Excelsior Asia-Pacific regional headquarters in Australia and then fly on to their Japanese office in March. While in Australia, when he would meet with the General Manager for Risk for the first time, the remainder of the subsidiary / joint venture visits would be organised.

At the end of January the researcher received a late night phone call from Head of Group Audit. He told the researcher that the Asia-Pacific headquarters was expressing some concern as to the amount of the region's time the research would take up. This was rather unsettling for the researcher as he had already provided a detailed schedule of his research plans, listing the amount of time he would require with Excelsior personnel, and this had been agreed by the regional Chief Executive. The Head of Group Audit asked the researcher to send him further details of his research plans (including documents sent to the General Manager of Risk) so that he can discuss the matter with the Asia-Pacific office. The researcher replied in a very detailed Email (Appendix 4) that was designed to allay any concerns that may arise.

The Email included proposed travel plans and a more detailed explanation the commitment the researcher was hoping to get from Excelsior.

The Head of Group Audit warned the researcher that there was a real possibility that his planned research, despite previous assurances, may not be able to proceed. This would have given the researcher no option other than to discontinue his PhD given that Excelsior was to be the most important component of his research. Not only would this have meant the loss of 16 months work it would also have had considerable financial implications due to the costs already incurred by the researcher in travelling to Singapore, signing a lease for five months accommodation and paying the fees to be a *Visiting Scholar* at NUS.

One week later the Head of Group Audit telephoned the researcher to tell him it had been agreed that he could go ahead with his research as long as the General Manager for Risk was prepared to co-ordinate the Excelsior Asia-Pacific part of the project.

Also no member of staff would be obliged to find the time to meet with the researcher if they did not wish to do so. The Head of Group Audit did not foresee either of these conditions being a problem. The researcher was told the main reason for the objection to the research was that, although it had been agreed by the regional Chief Executive, other key executives at the regional headquarters had not been made aware of the planned work and were unhappy that assumptions had been made without them being consulted.

Although these new conditions suggested a reduced level of co-operation from Excelsior once data gathering was underway the researcher was able to obtain the necessary information and found Excelsior staff to be generally very helpful.

The next day the General Manager for Risk contacted the researcher to say the project had his full support. It was agreed the researcher would visit Australia followed by Japan during early March. This would be followed by a visit to Hong Kong and the Peoples Republic of China in April, and Thailand, Malaysia and Singapore in May.

The meetings went ahead without any difficulties, with the single exception of Singapore, where the General Manager needed considerable reassurance from both the General Manager for Risk and the Managing Director of the Thailand office (who had been previously interviewed) that there were no potentially damaging outcomes that could result from the researcher's visit. Eventually she agreed to meet the researcher and after an initial period of uncertainty became one of the most forthcoming interviewees of the entire project. In total 17 interviews were undertaken with 20 people with each interview lasting an average of 85 minutes. The full list of personnel interviewed is included in Table 4.2.

During late April the researcher received an Email from the Excelsior Director of Business Risk Management, to whom the Head of Group Audit reports, asking to meet with him. It was agreed that a date would be set when the researcher returned to the UK in July. At the meeting, which would be held at Excelsior's world headquarters, the researcher would make a presentation based on his initial findings

and be able to question the Director of Business Risk Management about his expectations with regard to the operation of the RBSIC in the Asia-Pacific region.

Table 4.2

Asia-Pacific Based Interviews

Company	Role	Nationality	Business Unit	Host Country
Excelsior	CEO Asia-Pacific	Indian	Reg. HQ	Australia
Excelsior	Regional Finance Director	Australian	Reg. HQ	Australia
Excelsior	General Manager Risk	Australian	Reg. HQ & Subsidiary	Australia
Excelsior	Business Continuity Manager	Singaporean	Reg. HQ & Subsidiary	Australia
Excelsior	Finance Director	Australian	Subsidiary	Australia
Excelsior	Managing Director	British	Subsidiary	Japan
Excelsior	Finance Director	Japanese	Subsidiary	Japan
Excelsior	Operations Director	Japanese	Subsidiary	Japan
Excelsior	Legal Manager	Japanese	Subsidiary	Japan
Excelsior	General Manager Finance (Greater China)	HK Chinese	Subsidiary	China
Excelsior	Finance Manager (China)	HK Chinese	Subsidiary	China
Excelsior	General Manager	HK Chinese	Joint Venture	Hong Kong
Excelsior	Accountant	HK Chinese	Joint Venture	Hong Kong
Excelsior	Managing Director	Thai	Subsidiary	Thailand
Excelsior	Senior Finance Director	Thai	Subsidiary	Thailand
Excelsior	Managing Director	British	Subsidiary	Malaysia
Excelsior	Finance Manager	Malaysian	Subsidiary	Malaysia
Excelsior	General Manager	Singaporean	Subsidiary	Singapore
Excelsior	Finance Manager	Singaporean	Subsidiary	Singapore
Excelsior	Administration Manager	Singaporean	Subsidiary	Singapore
Landmark	Joint Managing Director (Landmark)	British	Joint Venture	Taiwan
Landmark	Joint Managing Director (Marco Polo)	Taiwanese	Joint Venture	Taiwan
Landmark	Marketing Manager	British	Joint Venture	Taiwan
Landmark	Marketing Manager	British	Joint Venture	Taiwan
Landmark	Managing Director	British	Joint Venture	Hong Kong
Landmark	Quality Assurance Manager	British	Joint Venture	Hong Kong

4.6.8.3 Landmark

Unlike the researcher's experience with Peninsula and Excelsior data gathering with Landmark went ahead with very little difficulty. In March the researcher interviewed separately the four most senior executives of the company's Taiwanese joint venture – three expatriates from Landmark and one Taiwanese from the Taiwanese partner – for an average of 90 minutes per interview. The researcher was also given a tour of the companies operations including administration, warehousing, distribution and sales where he was shown examples of key internal control issues.

In May the researcher met with the Managing Director of the company's newly created Hong Kong joint venture and one of his senior managers. Both were expatriates from Landmark. Each manager was interviewed separately with the interviews lasting two hours forty five minutes and one hour respectively.

In addition to the data gathered through interviews many of the interviewees provided the researcher with valuable documentary data. In addition to individual interview scripts the researcher also produced a field note on each subsidiary / joint venture visited.

4.6.9 Concluding UK Data Gathering

Following the researchers return to the UK in late June, 2004, two presentations were made to Excelsior and one to Landmark (see Table 4.3). The objective of these presentations was to provide the companies with initial feedback on the research and to enable the researcher to gather more information from the headquarters perspective

relating to topics that had been discussed in the Asia-Pacific region. This provided the researcher with the opportunity to discover any differences in the perceptions of the two groups with regard to specific tasks, outcomes and general attitudes.

Table 4.3

Concluding UK Meetings

Company	Role
Excelsior	Group Director of Business Risk Management
Excelsior	Head of Group Audit
Excelsior	Group Audit Manager (Responsible for International Implementation of RBSIC)
Excelsior	Group Audit Manager (Responsible for UK Implementation of RBSIC)
Landmark	Director of International Market Development (Group)
Landmark	Director of International Operations (Group)

The researcher also had a meeting with the Excelsior Group Audit Manager responsible for the UK implementation of RBSIC with the objective of comparing his experiences with those of the interviewees in the Asia-Pacific region.

4.6.10 Other Data Sources

The researcher undertook three further interviews; first, with the European Head of Corporate Governance for a leading United States international bank and secondly with the Finance Director of the Thai division of a UK company. The interviews provided valuable supporting data on the experiences of two companies when corporate governance procedures were transferred from the parent company (where they were originally developed) to its overseas subsidiary. Finally, the researcher met with Nigel Turnbull, Chairman of the Internal Control Working Party of the Institute

of Chartered Accounts in England and Wales, who were responsible for publishing *Guidance on Internal Control: Guidance for Directors on the Combined Code*, to discuss the role of the Turnbull guidelines, what changes may occur and to what extent they can become embedded in a company.

Further data was provided by academic papers and books that analysed the transfer of specific parent company practices to their overseas operations, newspapers and news services.

4.7.0 Data Analysis and Reporting

This section will consider the approach used to analyse the data gathered in the UK and Asia-Pacific region.

4.7.1 Data Analysis

In this project, as is typical with qualitative research (Ritchie & Spencer, 1993: 178), the data collected is mainly text based, consisting of interview notes, field notes and other written documents. The researcher has combined historical data collected through the analysis of documents and retrospective interviews with current data collected in real time. The data for the 10 Asia-Pacific based embedded case studies consists of 759 responses given in 19 semi-structured interviews, data from four unstructured interviews and data gathered from a large number of documentary sources. Further data, including some that was not directly related to the embedded case studies, was provided from 15 interviews that took place in the UK and Thailand.

The management of such a large database can pose considerable challenges. The sheer volume of data to be organised can lead to what Pettigrew (1990: 281) described as “death by data asphyxiation”.

Initial data management involved the entering of the 759 responses to the semi-structured interviews undertaken in the Asia-Pacific region into a spreadsheet. This involved a systematic process of organising responses on a question by question basis. For each question the responses were grouped by company and business unit. This coding system also allowed for the systematic coding of data. Similar approaches that use tabular displays to manage and present qualitative data, without destroying the meaning of the data through intensive coding have been outlined by Miles & Huberman (1984).

Data from the four unstructured interviews relating to the embedded case studies was included in the individual case study write-ups. The remaining fifteen interviews and other sources of data were analysed separately and the results were overlaid on the findings of the analysis and discussion chapters.

The researcher’s next task was to write a chapter introducing the two case studies. Each case begins with a brief description of the company this is followed by a review of the operation of the RBSIC in the company. The remainder of the case describes each of the Asia-Pacific business units that make up the embedded case studies including data relating to non-practice specific learning, change and innovation, certain aspects of its relationship⁸ with headquarters⁹ and the operation of the RBSIC

⁸ Primarily degree of dependence and headquarters understanding of the local operating environment

in the business unit. Following the approach described by Eisenhardt (1989: 540) the researcher's initial aim was to become familiar with each case as a stand alone entity. These write-ups are purely descriptive, but they are central to the generation of insight (Gersick, 1988: Pettigrew, 1988) because they helped the researcher cope early in the analysis process with the large volume of data that had been obtained (Eisenhardt, 1989: 540).

A cross case analysis of the data combined in the previously mentioned spreadsheet and overlaid with data collected at the Excelsior and Landmark corporate headquarters, the two meetings at Peninsula's corporate headquarters and individual interviews with people not directly connected with the case studies was then undertaken with the objective of discovering any patterns and emergent issues (Ritchie & Spencer, 1993: 179 – 180). This approach allowed the researcher to look for within-group and inter-group similarities and differences, and led to the identification of five key factors in the implementation, internalisation and institutionalisation of the RBSIC in individual business units. Following a broad statement of the findings of this research and how they relate to the theoretical framework underlying this research, the five factors are analysed and discussed in separate chapters.

This approach is very much a reflection of the data gathered. Upon commencement of the project the researcher was hoping to gather data on the transfer of the RBSIC in three companies' Asia-Pacific operations. For the reasons explained above this did

⁹ Corporate headquarters for both Landmark and Excelsior Asia-Pacific headquarters and corporate and regional headquarters for the other Excelsior business units.

not prove possible. However, high quality data was gathered from Excelsior and when this is combined with the Landmark data where the company is at an earlier stage in the implementation of a RBSIC than Excelsior and the data provided by Peninsula headquarters personnel relating to the introduction of the practice in their Asia-Pacific offices, plus the other sources of data – individual interviews, documentary, etc. - the data collection objectives of the researcher have been achieved.

4.8.0 Conclusion

This chapter has described the methodology and methods used in this research. It has highlighted the challenges that were faced by the researcher in gaining access to companies to undertake research of a highly confidential nature where only senior executives could be interviewed. The difficulties were compounded by the large geographical spread of the project - eight national locations. Given these difficulties it is not surprising that to date very little research has been produced on the transfer of corporate governance practices internally by companies across international borders.

The next chapter will introduce the two case studies – Excelsior and Landmark – and review the operation of the RBSIC in their respective business units.

THE COMPANIES

5.0.0 Introduction

Drawing on data gathered through interviews and company documents this chapter will introduce the ten embedded case studies developed from the two main research subjects. The largest portion of the data comes from the research undertaken at Excelsior which provided eight embedded case studies - Asia-Pacific headquarters, national subsidiaries in Australia, Japan, Peoples Republic of China, Thailand, Malaysia and Singapore and a joint venture in Hong Kong. The remaining two embedded case studies are developed from data gathered at Landmark's Taiwan and Hong Kong joint ventures.

The chapter is divided into two main parts – one for each company. Each part begins with a brief description of the company which for confidentiality reasons is limited to information regarding stock market listing, revenues, the broad business sector within which it operates and recent strategic developments. This is followed by a review of the operation of the RBSIC in the company. It then goes on to describe each of the Asia-Pacific business units involved in the study commencing with a description of the data sources, followed by a section that describes the business unit and the data relating to non-practice specific learning, change and innovation and certain aspects of its relationship¹ with headquarters². The next section considers the operation of the

¹ Primarily degree of dependence and headquarters understanding of the local operating environment

RBSIC in the business unit incorporating data from the managers most involved with practice including the degree to which they believed it to be embedded in the operations of their individual organisation and the extent to which its performance was monitored.

5.1.0 Excelsior

5.1.1 The Company

Excelsior's primary stock market listing is on the London Stock Exchange in addition it is also listed on the New York Stock Exchange and is therefore required to follow both UK and US corporate governance codes and regulations. The company has a turnover in excess of £6 billion, operates in the consumer goods sector and has a substantial global presence with production and marketing operations in over 100 countries employing over 50,000 people. The company's operations expanded considerable in 2003 with the acquisition of a United States based MNE that also operates in the consumer goods sector offering a line of products that complement Excelsior's existing business.

Traditionally business units were given targets and their Chief Executives / Managing Directors set about achieving them. The business units were often self-sufficient and highly autonomous, principally serving the country where they were based, normally having few links with other parts of the company³. Excelsior is now in the process of

² Corporate headquarters for both Landmark and Excelsior Asia-Pacific headquarters and corporate and regional headquarters for the other Excelsior business units.

³ Business units given this degree strategic freedom and national autonomy are described as *multinational companies* by Ghoshal and Bartlett (1998: 16).

moving to what it describes as a ‘more horizontal transnational structure’. The number of factories producing the same product will be substantially reduced and in some cases this will result in one plant becoming the sole supplier for the entire company or geographic region (e.g. Asia-Pacific). The company’s manufacturing plants will be owned by and report to the global supply chain while national subsidiaries and joint ventures will generally retain control over the local marketing function selling the products produced, both locally and abroad, by the supply chain⁴.

5.1.2 Risk-Based System of Internal Control

Excelsior’s RBSIC was introduced to the company’s Asia-Pacific business units in 2002⁵. In conjunction with the launch the previous Group Director of Business Risk Management (retired in 2003) and the Head of Group Audit (still in post) made a number of presentations to senior staff throughout the region explaining the RBSIC and the deadlines for the various stages of implementation (see Appendix 5 for a summary of the presentation). This was followed by a visit to each business unit by a member of the Group Audit Department who explained the practice to the individuals tasked with undertaking it.

Although risks are owned by individual business units, the Group Audit Department is responsible for monitoring and embedding the RBSIC. This means that Group Audit has overall responsibility for the RBSIC, while each business unit is expected to document and identify its own risks.

⁴ Companies that build cost advantages through centralised global scale operations in this manner are referred to by Ghoshal and Bartlett (1998: 17) as *global companies*.

⁵ The system was introduced in the UK in 2001.

From the perspective of Excelsior the introduction of the RBSIC was seen as a move to a ‘new paradigm’ where risk management was broadly focused and process driven, integrated within the company’s operations, and undertaken in a proactive and continuous manner. This ‘new’ approach to risk management was designed to be more integrated into the operations of the company as opposed to the more fragmented approach previously adopted and to be seen as a positive rather than negative process⁶. Its aim was to provide a structured approach to help identify all sources of business risk that would result in a complete risk database for the entire company.

Excelsior believes the RBSIC will add value both to the group and individual business units by increasing their understanding of risk, thereby, enabling them to effectively calculate the trade off between risk and reward when making strategic decisions designed to increase overall returns. It will also enable the company to comply with the recommendations of the Combined Code on Corporate Governance (1998; 2003)

A user’s guide to the RBSIC is available to all employees⁷ via the company’s intranet system this includes:

1. Purpose of the RBSIC
2. What is a risk?
3. RBSIC structure (nature of the database)
4. Library documents (documents underlying the RBSIC)
5. Classifying a risk

⁶ Source: Excelsior internal document

⁷ None of the personnel interviewed in the Asia-Pacific region were aware of the existence of the User Guide

6. Materiality (when is a risk material?)
7. How to document a risk
8. Views and reports available from the database
9. Access and authorisation

In addition all employees are given two booklets that explain the company's purpose and values, and its business principles. These two documents set the standards for the company's ethical policies and encourage employees to report anything they believe breaches these policies.

Business units are assigned responsibility for assessing risks through a self-assessment process. This work is generally owned by the business unit's Finance Department. However, they can approach Group Audit for advice. The role of Group Audit is intended to be that of training, education, sharing of best practices⁸ and challenging local reviews. The exceptions are new business units (e.g. acquisitions) or problem business units that lack the necessary expertise (e.g. due to the departure of key personnel). In these cases a team is sent to the business unit from Group Audit to help them produce their first risk assessment and populate the database.

Each business unit identifies individual risks, the nature of the risk is described, its potential impact and likelihood of it occurring is estimated, decisions are taken as to

⁸ Presently the company does not have any plans to bring together the managers responsible for producing the RBSIC, so that they could share best practice and their experiences of the RBSIC, the Group Audit Manager responsible for the international implementation of the RBSIC said that other than an initial visit from Group Audit and the ongoing advice they offered, no additional training was provided at the corporate level and he doubted the resources would be made available that would allow such an event to happen even if there was a demand for such training.

the most appropriate method of managing the risk⁹ and the person who is accountable for the risk named. Finally, the risk is ranked in terms of importance. This information is then entered into a central database. The individual risk reports are used to annually produce a very large report for the whole company. This ‘bottom-up’ generated data is then used to identify key groups of risks. ‘Top-down’ risks identified at the group level that may not be known by the business unit e.g. the possibility that it may be closed down are then added to the database. Finally, it is collated into a report that “*aims to describe the risks perceived throughout the business.....based upon an objective review of the self-assessment risk analyses submitted by business units and group functions*”¹⁰ that lists the top risks (by broad categories) and is sent to the Group Board for their consideration. The risks are reviewed quarterly by the Chief Executive’s Committee.¹¹

5.1.2.1 Performance

Group Audit regards the performance of most international business units in relation to the RBSIC as disappointing. For the year 2003 Group Audit was required to repeatedly follow-up requests for data with its primary role reduced to that of policing the system.

By the submission date (end August) Group Audit had the following responses from international business units:

⁹ This may include regular monitoring, investment of additional resources, transfer to third parties via insurance or hedging arrangements and contingency planning (Source: Excelsior internal documents)

¹⁰ Source: Excelsior internal document

¹¹ The committee reports directly to the main board and is responsible for the day-to-day management of Excelsior’s operations and the implementation of strategy and includes leaders of each of the company’s geographical regions and functions and is chaired by the chief executive officer. (Source: Excelsior Annual Report)

Action	Business Units
No Response	10%
Incomplete work	40%
Not approved ¹²	30%
Correct	20%

Although, all of the data was eventually gathered in time for the main board review 20% of the submissions were not correct one month before the meeting.

The Group Audit Manager responsible for the international implementation of the RBSIC was certain that Excelsior had complied with the Turnbull guidelines; however, he thought Excelsior was not getting the full benefit of the practice as it was failing in its objective of adding value to the company.

5.1.3 Asia-Pacific Regional Headquarters

5.1.3.1 Data Sources

Data for this section was provided by the Asia-Pacific General Manager for Risk and the Business Continuity Manager Asia-Pacific Region who are based in Australia and have had day-to-day responsibility for the RBSIC in the Asia-Pacific region since its introduction in 2002. Further data was provided by the Asia-Pacific Regional Finance Director to whom the General Manager for Risk reports who is also based in

¹² Approval of the risks to be included in the RBSIC is required from the local board, effectively this means 'signed-off' by the local Chief Executive / Managing Director.

Australia. The Regional Finance Director and the General Manager for Risk are both Australian and have worked for the company for over five years. The Business Continuity Manager was born in Singapore where he initially worked for Excelsior before taking up his present duties in 2002. Additional data was also gathered through the examination of company documents.

5.1.3.2 The Business Unit

Excelsior has been operating in the Asia-Pacific region for nearly one hundred years. Its Asia-Pacific regional headquarters is based in Australia as are the most senior regional managers including the Chief Executive Officer. In 2002 the business was substantially expanded following Excelsior's acquisition of an American MNE with substantial interests in the Asia-Pacific region. In 2004 the region contributed over 10% of the company's overall profit and accounted for over 15% of total turnover. It employed more than 12,000 people in over 20 locations throughout the region which stretches from Pakistan to New Zealand.¹³

The business was seen as generally supportive of learning, change and innovation with what the General Manager for Risk described as "*can-do approach*" that can be found throughout the region. However, there was a concern about the number of new group initiatives the region had been asked to implement over the last five years. highlighted by the Regional Finance Director who believed the region was suffering from "*an initiatives overload*". This had led to a greater requirement for new

¹³ The company does not provide data for national business units.

programmes to demonstrate their value than in the past especially when they were driven from outside of the business unit.

Some concern was expressed about the degree to which corporate headquarters understood the differences in the Asia-Pacific operating environment and their own. An example was given of a recent unsuccessful attempt to implement an information technology system that failed because the UK based designers had not understood certain characteristics of the local organisation that were unique to Australia. This was seen as particularly relevant, because, although the region was not dependent on corporate headquarters accept for the allocation of resources (e.g acquisitions), the degree of autonomy enjoyed by the region, in line with Excelsior's new strategy, was seen as declining as the company steadily became more centralised. This strategy would require a greater appreciation of the Asia-Pacific operating environment by corporate headquarters if more decisions concerning its business units were to be taken outside of the region. However, regarding the RBSIC the General Manager for Risk believed that Group Internal Audit did understand the differences and *"in the UK the people that need to understand do"*.

5.1.3.3 RBSIC

The General Manager for Risk has day-to day responsibility for the RBSIC at both the national level (Australia) and throughout the region and, with his deputy the Business Continuity Manager who was hired specifically to work on the RBSIC, make up the regional RBSIC team. The RBSIC is only one of a number of activities for which the General Manager for Risk has responsibility his other tasks include crisis / incident

management, contingency planning, risk management and insurance. His job title (previously General Manager Risk & Insurance) was recently changed to emphasise the importance of risk. Until the introduction of the RBSIC he had not had any experience of operating a risk-based system of internal control or any other type of system of internal control. Although he describes the RBSIC as the bedrock of the risk management process much of his time is taken up with his other duties. On one of the days when the researcher was visiting Excelsior's regional headquarters the General Manager for Risk was required to spend a considerable amount of time finding out if Excelsior's insurance provider would cover a heavily pregnant member of staff to fly from New Zealand to Australia.

Despite other calls on his time the General Manager for Risk is the key player regarding the RBSIC for the region; he is very enthusiastic, clearly enjoys his work and is held in high regard by those people he interacts with who admire him for his hard work and approachability. He has adopted a 'hands - on' approach to his job, constantly travelling throughout the region. He and his deputy are seen as the principle resource for the RBSIC by local business units. Whenever they have any questions relating to the practice or require assistance from outside of their business unit they will contact him or his deputy asking for support. The General Manager for Risk and his deputy also provide the business units with the only documentation they have relating to the practice – a generic list of possible risks; a two page explanation of how risks and the likelihood of them occurring should be quantified (high, medium and low); and a template that should be completed once the risk has been identified and quantified that includes additional data detailing who is accountable for the risk and what measures have been taken to control it. All three documents are provided

throughout the region via *Lotus Notes* (a messaging and collaboration personal computer based tool used throughout the company).¹⁴

Once the individual business units have identified their risks and decided upon the measures taken to control them the completed templates are sent to the Business Continuity Manager, who has responsibility for the Asia-Pacific RBSIC database, he collates the RBSIC data and enters it into the main database that includes all of the risks for the entire region.

The General Manager for Risk generally adopted a confident tone when discussing the RBSIC while acknowledging “*We add a little more to it, identifying what we need to do next to handle risk.*” He remarked that the Asia-Pacific region was the most advanced region in the company in terms of embedding the RBSIC.¹⁵ However, he did not provide any evidence to support this claim or demonstrate any awareness of the degree to which the practice had been embedded throughout the rest of the company.

Regarding the role of the RBSIC in the identification of business opportunities he remarked: “*At its most simple, just walking around a site, looking for risks broadens knowledge and understanding enabling you to identify opportunities.*” He then went on to add that he did not believe that the RBSIC had played an important role to date in the identification of opportunities. He viewed the objective of the RBSIC as “*a way to create a culture of risk identification.*”

¹⁴ Both the General Manager for Risk and his deputy insisted there were no other sources of documentation about the system available to them. This view was also held by all of the business units visited.

¹⁵ This was vigorously denied by the Excelsior Group Director of Risk Management.

Commenting further he acknowledged that the RBSIC had only been embedded at the top levels of the organisation and for it to reach further down the hierarchy of individual business units more training and exposure to the practice would be necessary. He was supported by the Regional Finance Director who described the region as being “*half way there*” adding that for the foreseeable future the practice would only be embedded at the higher levels of the organisation.

The General Manager for Risk felt the most difficult part of implementing the RBSIC had been: “*Getting people to find the time to do the task and think more out of the box.*” This view was supported by the Regional Finance Director who also thought that the ‘alien’ nature of the RBSIC to some of the cultures in the region was a source of difficulties.

Further questioning of the interviewees provided more data to suggest that the General Manager for Risk’s initial confidence in the degree to which the RBSIC was institutionalised may have been misplaced. He stated that “*Business units expects everybody to be risk managers and they need to be given more skills to identify risks. This can be done through their existing work groups.*” Although this is recommended in the Turnbull guidelines (Para. 19) it was seen as unrealistic by the Regional Finance Director. Furthermore the General Manager for Risk own comments did not suggest this had yet been achieved when he admitted that many members of staff saw the RBSIC as a bureaucratic task. This was supported by the Regional Finance Director who said the RBSIC was regarded by most employees, who were aware of the practice, as “*bureaucratic but with positive outcomes.*”

There was an absence of ‘checks and balances’ to ensure that the RBSIC was working effectively. The General Manager of Risk believed by placing an emphasis “*on good data, that is delivered on time with real mitigation measures*” and reviewing the practice and the risks identified annually he was able to ensure the RBSIC was working effectively. This rather simplistic approach did not appear to allow for the possibility that risks may not be identified, a concern of the Regional Finance Director. In a characteristically blunt fashion the Regional Finance Director remarked that he did not know what was done to ensure the RBSIC was working effectively suggesting that he left it to the General Manager for Risk to ensure this was the case.

The data also revealed that the practice was not seen as an ongoing task. The General Manager for Risk and his deputy acknowledged that although it was ongoing for them, it was not at the forefront of activities for other staff, who only notice risk if it is very apparent and therefore saw it as a periodic exercise. This was supported by the attitude of the Regional Director for Finance who contrary to the approach promoted in the RBSIC believed it should only be undertaken “*when required*”. He was not forthcoming by what he meant by “*when required*”. The failure of the practice to become ongoing means that it is not achieving one of the key requirements of the Turnbull guidelines that require the adoption of a system of internal control that should be incorporated by the company within its normal management and governance processes and be embedded in the operations of the company forming part of its culture (Turnbull, 1999, para. 22) and not be treated as a separate exercise undertaken to meet regulatory requirements (Turnbull, 1999, para. 9).

On a more positive note the General Manager for Risk did add that when new risks arose that were important to a businesses unit they were identified quickly and action was taken to mitigate them.

5.1.4 Australia

5.1.4.1 Data Sources

In addition to the Asia-Pacific General Manager for Risk and the Business Continuity Manager Asia-Pacific Region (described in 5.1.3.1) data for this section was provided by the Finance Director (Australia) who is an Australian and has worked for the company for more than five years. Additional data was also gathered through the examination of company documents.

5.1.4.2 The Business Unit

Excelsior's Asia-Pacific presence began in Australia nearly one hundred years ago. Its Australian operations are by a substantial margin the largest producers of revenue and income in the region with manufacturing and marketing business units throughout the country.

The Finance Director did not believe the business unit was as supportive of change and innovation to the same extent as the General Manager for Risk (see 5.1.3.2) commenting: *"Ideas tend to be 'filtered out' with only the relevant ones being adopted. If they are directives from headquarters they have to be adopted but not*

necessarily with enthusiasm.” He also differed from the General Manager for Risk regarding the number of new initiatives the business unit was asked to implement commenting that in general *“...we tend to devise our own practices.”*

Despite recent changes in corporate strategy (see 5.1.1) the business unit continued to view itself as relatively independent from corporate headquarters with the General Manager for Risk describing the business unit as *“...part of a worldwide organisation. However, operationally it is operated autonomously with no reporting lines to the UK. On a day-to-day basis there is a lot of communication between the two. It is not at all dependent on the UK but works with it. However, corporate headquarters does provide standards.”* The Finance Director added: *“The business unit is less independent than it was 10 years ago, although there is still a fair way to go before it becomes completely integrated into the company, although the process is underway.....the business unit is self-sufficient with headquarters more dependent on it, to gain an understanding of what is happening in the region, than it is on headquarters.”*

Once again there was some concern regarding the extent to which corporate headquarters understood the difference between their operating environment and that found locally with the Finance Director commenting that corporate headquarters *“...feel systems should be the same everywhere.”¹⁶*

¹⁶ He also used the example of the recent failed implementation of the information technology system mentioned previously by the General Manager for Risk.

5.1.4.3 RBSIC

The General Manager for Risk and his deputy the Business Continuity Manager are responsible for the day-to-day administration of the RBSIC in Australia with the General Manager for Risk reporting to Finance Director (Australia) who has overall responsibility for the RBSIC locally. In common with the General Manager for Risk and the Business Continuity Manager he did not have any experience of operating a risk-based system of internal control.

Although the General Manager for Risk admitted to making minor modifications to the RBSIC, he adopted a rather confident tone when discussing the degree to which the RBSIC had been embedded in Australia while admitting that it was only embedded at the senior levels of the organisation. While the Finance Director said the biggest problem institutionalising the RBSIC was getting employees to “*treat it as a priority and ‘getting people onboard’.*”

He went on to acknowledge that most members of staff were “...*vaguely aware*” that they had an individual responsibility for risk management and “...*think it is a good thing*”. Before going on to say that “...*many people will see it as the responsibility of the Finance Department and it is unrealistic for every member of the business unit to have a responsibility for risk management. The RBSIC is restricted to upper management and their direct reports.*”

The Finance Director had a different approach to the General Manager for Risk to ensure the RBSIC was working effectively. He believed this required “*Constant*

review and the involvement of internal audit.” Adding that risks were reviewed annually and the responsibility for monitoring and making sure the system was working effectively belonged to the Finance Director (himself) and Risk Manager (General Manager for Risk). The Finance Director, in line with the General Manager for Risk commented that he had not found the RBSIC to be of use in the identification of business opportunities.

The Finance Director supported the General Manager for Risk regarding the degree to which the RBSIC was ongoing acknowledging that the “...*periodic nature of the practice makes embedding difficult.*” Overall he described the practice as “...*becoming more important but it is not embedded yet. Its profile needs to be raised both generally and at the senior management level. There needs to be more communication as to the reasons for it and more training. There may also be a need for additional recruitment.*”

In line with the comments made by the General Manager for Risk the Finance Director felt that the RBSIC was reactive in nature identifying risk quickly when it involves something major. However, on a more negative note he commented that more minor issues “*tend to hang around for a while*”.

5.1.5 Japan

5.1.5.1 Data Sources

Data for this section was provided by the Managing Director (Japan) who is a highly experienced expatriate manager, born in Britain, who has worked in a number of international locations for Excelsior, the Finance Director (Japan) and Operations Director (Japan), both of whom are Japanese and have worked for Excelsior for more than 10 years and can now be described as at the later stages of the career, and the Legal Manager who is Japanese and has recently joined the company from an American MNE.

5.1.5.2 The Business Unit

Excelsior first established operations in Japan over 20 years ago. Recently, the size of the business has expanded considerably following Excelsior's acquisition of an American owned company whose Japanese presence was much larger than Excelsior's existing business. Its business consists of both manufacturing and marketing units.

The Legal Manager believed the business was very supportive of learning, change and innovation and "*there was a strong desire in the company to learn from both internal and external sources*". He went on to say the number of practices implemented by the company had increased significantly as a result of the expansion of the business through acquisition. This required the acquired company to bring its practices into

line with the rest of the company. These changes were regarded as essential and although they necessitated a considerable commitment of resources were supported by management.

Regarding the relative independence of the Japanese business the Legal Manager pointed out that although the business was not dependent on corporate headquarters for its day-to-day operations it needed clear direction when it works with the rest of the group. e.g. UK, USA and Australia. This was particularly important given that the business was still in a state of transition as a result of the acquisition and still had an organisational culture more in line with its previous American owner.

When asked did he feel that corporate headquarters understood the differences between the Japanese operating environment and that found in the UK the Legal Manager replied: *“There are many things Excelsior’s UK people need to find out if they are to develop a greater understanding of the business. Especially, the implications of having a very different product portfolio to the rest of the group and the relative lack of protection provided by the legal system.”* He then went on to give an example of a successful product that had been launched by Excelsior in Japan and had then been copied by a Korean company and introduced into the Japanese market with an almost identical name and packaging. Unlike the UK this is legal in Japan.

5.1.5.3 RBSIC

The Legal Manager was responsible for the day-to-day management of the RBSIC. He reported to the business unit’s Finance Director. Although he had prior experience

of risk identification and management systems his experience had been at an American company using systems based on their national standards and not used in a corporate governance role. As a recent arrival at the company he had not been involved with the RBSIC during the annual risk review process the previous year. The Finance and Operations Directors both of whom had been involved with the risk identification for the RBSIC the previous year commented that the RBSIC was not very different from the previous system they had used;¹⁷ however, it was more sensitive.

Both the Finance Director and the Legal Manager agreed that the RBSIC was embedded only at the top levels of the business with the Legal Manager adding that most members of staff are unaware of the practice. He added that he believed that the operation of the RBSIC differed from the formal description and the situation would be improved if he could get better access to the data provided by other business units enabling him to learn from their experiences. Furthermore, he thought the system needs to be more proactive, better communicated including guidelines explaining how it can be spread deeper into the organisation with much better training throughout the business. While acknowledging the potential of the RBSIC to identify business opportunities he had not yet found it to be the case or tried to use the practice in this manner.

Regarding the implementation and institutionalisation of the RBSIC the Legal Manager commented *“the culture gap is the greatest problem followed by the lack*

¹⁷ When referring to the previous system the Finance and Operations Directors meant the system used in the annual business planning process. This was not a risk based system of internal control designed to be part of the company's ongoing operations.

materials that can be used to educate the business” as demonstrated by the limited information and documents that he had received about the practice,

The Legal Manager did not believe the RBSIC was regarded by employees as an ongoing practice and tended to get forgotten outside of the annual data gathering process. Although he did not regard it as a bureaucratic task he acknowledged this may not be the case throughout the business unit. He was unsure if the periodic nature of the practice made it difficult to embed as he had not been working at the company long enough; however, he expected this was the case. He was certain that the majority of employees did not see themselves as risk managers.

When the practice was originally introduced to the business unit its performance and the risks identified were monitored on a quarterly basis. This was now done annually as the business did not have sufficient resources for quarterly checks.

The Legal manager was a supporter of the RBSIC describing it as an “*essential tool in the modern business environment*” but did not believe it was functioning properly as the risk identification process did not go far enough down the organisation’s hierarchy increasing the likelihood that risks would not be identified. He concluded saying: “*The whole practice still needs to be properly implemented.*”

5.1.6 People's Republic of China

5.1.6.1 Data Sources

The data for this section was provided by the General Manager Finance (Greater China) and the Finance Manager (China). Both are Hong Kong born Chinese. The General Manager Finance had only recently joined Excelsior. He had formerly been employed by a leading American consumer goods company. The Finance Manager had been with Excelsior for eight years joining the company in Hong Kong where he had previously worked for Excelsior's Hong Kong based joint venture partner. He transferred to Beijing in 2003.

5.1.6.2 The Business Unit

Excelsior commenced operations in China in 1994 when it established a joint venture with a local company. In 2001 it acquired its partner's share of the business creating a one hundred percent owned foreign entity. Since then it has grown through the acquisition of a local company and through the merger of its activities with the Chinese subsidiary of an American MNE recently purchased by Excelsior. The business has its headquarters in Beijing where it also operates a plant; it has two other plants elsewhere in the country. Beijing is also the sub-regional headquarters for Excelsior's Greater China operations.

The Finance Manager commented that the level of support given by the business to learning, change and innovation "*depends on management effort*". The local senior

management are very adaptable but this is not the case lower down the company. The approach to new ideas is no different if they are internally or externally generated. The General Manager Finance added: *“Excelsior’s orientation is to do things the cheapest way and if possible stick with existing approaches....if the culture doesn’t change it won’t be able to change the business”*. The business unit had not been asked to implement many new practices recently and those that had been introduced were generally related to financial reporting.

The Finance Manager described the business as becoming more autonomous as it grew; however, it is still dependent on the regional headquarters for finance and computer systems.

Both of the managers felt that that corporate headquarters had difficulty in understanding the differences between the local operating environment and their own. The Finance Manager was gentler in his criticism giving corporate headquarters credit for understanding some of the difficulties faced by the company in China while complaining that they did not appreciate the lower quality of second-line managers (especially compared to Hong Kong & Singapore) that made it much harder for senior managers to delegate responsibility. The General Manager Finance was much more strident complaining: *“They have no idea what the business is like. Too much contact is in the form of ‘specific issue related’ Emails. There is a lack of real understanding. Remote location management in China is very risky there is a need for structure. There is a definite need for more visits from regional headquarters so that managers at the regional level can gain a real understanding of the business.”*

5.1.6.3 RBSIC

Since his 2003 transfer to Beijing the Finance Manager has had day-to-day responsibility for the RBSIC in China. Previously he had been responsible for the RBSIC when he was based in Hong Kong. Both the General Manager Finance and Finance Manager had previous experience of working with systems of internal control. The system used by the Finance Manager had been based exclusively on financial indicators with other risks considered but not in a formal or comprehensive manner. While the General Manager Finance said that the previous systems he had worked with were linked with the audit role. At his previous companies he was given a set of principles on which their control culture was based. This dominated the way the company was run. They were constantly reinforced “*until the staff was brainwashed*”.

The Finance Manager was very confident when asked about the degree to which the RBSIC was embedded in the business saying: “*It is not perfect but there is not a long way to go*”. He added that the formal description of how the RBSIC was supposed to function was flexible enough “*....to give you the freedom to do what is appropriate*”. While the General Manager Finance was most concerned about the general lack of knowledge of the practice and the need to provide as much guidance as possible. This was supported by the Finance Manager who acknowledged that awareness of the practice was probably limited to senior management and most employees do not regard themselves as risk managers.

The Finance Manager regarded the RBSIC as periodic. “*it is seen as a very specific separate task in itself*”, rather than ongoing. He acknowledged that awareness needed to be raised to improve the level of internal debate about risk management and mitigation. Although he did not regard the RBSIC as a bureaucratic task he acknowledged this may not be the case throughout the business unit. Both the General Manager Finance and Finance Manager of Excelsior’s Chinese subsidiary acknowledged the potential for the RBSIC to identify business opportunities but had not used it in that way. The Finance Manager of Excelsior’s China subsidiary commented that they tended to identify and mitigate risks and did not think ‘outside the box’. He acknowledged that this approach can “*stifle innovation*”.

Although nothing was done to ensure the RBSIC was working effectively, other than a yearly review of the system, independently of the RBSIC specific risks are reported to the Managing Director and discussed at the bi-weekly meeting of senior management where they are noted and revisited during the year.

5.1.7 Hong Kong

5.1.7.1 Data Sources

The data for this case was provided by the General Manager (Hong Kong) and the Accountant (Hong Kong). Both managers are Hong Kong born Chinese and have worked for the company for less than three years. Additional data was gathered through the examination of business unit documents.

An informal lunch meeting was also held where the researcher was introduced to a number of the other staff working in Hong Kong providing a forum for a discussion about the RBSIC.

5.1.7.2 The Business Unit

Excelsior operates in Hong Kong through a joint venture with a local company - *Mandarin*¹⁸ - that has been in place for eight years, ownership is split 70:30 respectively. The joint venture covers Hong Kong, Macao and Taiwan. It does not have any manufacturing interests importing all of the product it sells.

Both managers acknowledged that the business's trading operation status made it dependent on the rest of Excelsior for product.¹⁹ However, the marketing and sales functions are not subject to external control and operate independently. The joint venture partner handles warehousing and distribution. The business reports to the Greater China sub-region headquarters in Beijing which the General Manager visits on a monthly basis.

Both managers described the business as very supportive of learning, change and innovation. The General Manager felt that this was due in part to the short time most of the staff had spent with Excelsior which in nearly all cases was between two and three years. The business had not been asked to implement any new practices recently. The General Manager thought this was "*due to the current volatile nature of the region*".

¹⁸ For confidentiality reason it is not possible to give the company's real name.

¹⁹ The largest proportion of their product is sourced from Australia, followed by Malaysia.

The managers disagreed on the extent to which corporate headquarters understood the differences in the local operating environment and that of the UK. The General Manager thought it was not an issue due in part to the large number of British expatriate managers who have worked in the office. While the Accountant felt that corporate headquarters was not really aware of the differences that exist between the operating environments. However, she did not regard this as a problem saying “....*the differences as just differences in working style*”.

5.1.7.3 RBSIC

The Accountant is responsible for the RBSIC; this task was previously undertaken by the Finance Manager (China) who moved to Beijing in 2003. Both managers had very little experience of working with systems of internal control. The General Manager remarked that this was normally the responsibility of the Finance Manager adding that the RBSIC was far more developed than any internal control systems that had operated in any of the other companies where he had previously worked. While the Accountant said she had previously worked for locally owned companies “*who did not bother with such systems*” and she did not have any knowledge of internal control systems that contained non-financial controls.

Both managers agreed that the RBSIC should be embedded throughout the business, and that it was a high priority to achieve this, but it will take time. At the management level the practice is understood while at the junior level they lack detail²⁰. Most people are aware of the RBSIC though not how it works. The risk

²⁰ This was supported during conversations the researcher had with junior members of staff.

identification process involves senior staff only. The General Manager believed the most difficult part in implementing the RBSIC was related to cultural difficulties while the Accountant felt the biggest problem was the “*absence of technical training.*” The Accountant was rather embarrassed to admit that she had not been given a formal description of the practice and was therefore uncertain of the degree to which the practice followed the recommended approach. While the General Manager remarked: “*We are definitely trying to follow the practice but we have to allow for localisation....we don’t know yet how appropriate the practice is.*” Regarding the potential of the RBSIC to identify business opportunities he said: “*To be honest it is often the reverse, an opportunity is identified and then you check the risks*”. In his experience when you are considering a business opportunity you look at the return on investment and tend to forget about the risk.

Both of the managers regarded the RBSIC as ongoing with the General Manager saying: “*It is an ongoing practice; the ‘follow-up column’ ensures this.*” While the Accountant described the RBSIC rather contradictorily as ongoing “*despite its periodic nature*”.

Although nothing was formally done to ensure that the RBSIC was working effectively the General Manager said that previously identified risks were checked with the person who has been given responsibility for a risk “*every two or three months*”. The Accountant said the frequency of reviewing risks was different for each risk.

5.1.8 Thailand

5.1.8.1 Data Sources

The data for this case was provided by the Managing Director (Thailand) and the Senior Finance Director (Thailand). Both were born in Thailand. The Managing Director was previously with the American MNE acquired by Excelsior having joined them two years earlier from another American MNE. The Senior Finance Director was also previously with the acquired American MNE, having joined them three years earlier from another American MNE.

5.1.8.2 The Business Unit

Excelsior's Thai business, based in Bangkok, was part of its 2002 acquisition of an American MNE, it is Excelsior's largest business in South East Asia and is the South East Asia sub-regional headquarters. The business commenced operations shortly after the conclusion of the Second World War. It does not have a sales force but works with a distributor who is dedicated to Excelsior. It is in the process of spending £1.2 million on upgrading facilities where risks had been identified during the previous year's RBSIC. e.g. The main plant did not have a sprinkler system one is now being installed.

The Managing Director felt that the business needed to be more supportive of learning, change and innovation. He went on to explain that it had been adversely affected by the uncertainty surrounding its future in the two years before its

acquisition by Excelsior. This had made many employees risk averse. He did not feel the business could be described as a 'learning organisation' but was moving slowly towards becoming one. On a cautious note he said: *"There is a need to be careful because discipline relating to quality is key, change increases unknowns and risks. The business needs to keep rigid controls but be more flexible in its attitude to change."*

The Senior Finance Director disagreed with the Managing Director he felt the business was very supportive of change and innovation and went on to give a number of examples of how the business had had to change to fit in with Excelsior. He added the business was encouraged by both corporate and regional headquarters to be innovative but the most important person in learning, change and innovation was the local Managing Director.

Both the Managing Director and Senior Finance Director said they had been asked to implement a lot of new practices recently as a result of the acquisition. But they did not believe this has led to a downgrading of the importance of the RBSIC.

The two managers described something of 'mixed picture' with regard the degree of independence enjoyed by the business. The Managing Director described the Thai operations as *"very much part of an organisation"*. He went on to say that managers tend to have two bosses – local and functional e.g. supply chain. However, there is not a lot of control from headquarters on a day-to-day basis. The operation is large enough to be relatively free from interference and is self-sustaining. The Senior Finance Director added there is a requirement to follow Excelsior standards; however,

locally the business is “*free to do its own thing*” while relying on Excelsior for commercial strategy.

The Managing Director and Senior Finance Director felt it was too early (following the acquisition) to gauge the level of understanding of the Thai business by corporate headquarters. The Managing Director cheerfully commented that compared to his previous experience, where the parent company had very little understanding of the local operating environment and adopted an inflexible approach that expected the local business to use procedures developed for the US market, Excelsior was “*more flexible*”.

5.1.8.3 RBSIC

The Senior Finance Director is responsible for the day-to day management of the RBSIC. Both managers had previous experience of working with systems of internal control. The Managing Director said the RBSIC was “*a definite improvement*” on the previous system which was not formal and was restricted to a section in a recurring report. Also it was not as widespread with regard to the issues it considered.

Furthermore, its effectiveness was hindered by the requirement for part of the business to report directly to the United States while the remainder of the business reported to the local management. Now everybody reports to the Managing Director leading to more sharing of information. The Senior Finance Director added the previous system emphasised financial control and did not really consider non-financial issues.

Both of the managers of the Thailand subsidiary were unsure if the business complied with the formal description of the RBSIC with the Senior Finance Director commenting that he had expected more direction on implementing the practice from regional headquarters.

Both managers felt that through an understanding of risk it was easier to identify opportunities enabling the business to be managed more effectively. The Managing Director gave the example of how concerns over the risk of a gasoline price increase had led to the introduction of better management of usage and purchasing practices.

The business unit's aim was to embed the practice in the top three, maybe four, layers of the company. Presently, only the top two layers of management are involved in the risk identification process. In the factory it is generally the top three. The Managing Director felt that it would be very challenging to institutionalise it throughout the organisation. While the Senior Finance Director believed that in time the RBSIC could be embedded throughout the company while admitting he was not exactly sure what this would entail especially with regard to the frequency of regular reviews that would be required²¹. The Managing Director acknowledged that the level of awareness of the RBSIC especially among junior staff was not as high as it should be. While the Senior Finance Director commented that employees "*appreciate*" the RBSIC once they have some understanding of the practice, however, developing that understanding is a problem.

²¹ It should be noted that the attitude of the Senior Finance Director at times seemed to suggest that he saw the RBSIC as little more than a part of the internal audit process.

Both of the managers believed culture would be a source of difficulties when implementing the RBSIC but not in the institutionalisation of the practice. The Finance Director said this was because once initial implementation difficulties, due to culture based resistance, had been overcome the business unit's organisational culture would be strong enough for the RBSIC to be institutionalised.

The Managing Director regarded the RBSIC as ongoing, generally through informal discussion. However, he went on to say: *"But other things are more important....immediate concerns tend to dominate....as the RBSIC is not seen as directly affecting the P & L it is not that urgent."* While the Senior Finance Director rather contradictorily said: *"It is ongoing and should not be seen as periodic. However, it is difficult to embed outside of the formal annual review."*

Both managers acknowledged there were no clear milestones to ensure that the RBSIC was working effectively. The Senior Finance Director commented: *"Probably, more needs to be done."* At present the system and its output are reviewed annually.

5.1.9 Malaysia

5.1.9.1 Data Sources

The data for this section was provided by the Finance Manager (Malaysia & Singapore)²² who is based in Kuala Lumpur. He has held this position since 2001 and has worked for Excelsior throughout the region for the last 10 years. He is Malaysian. Further information was provided during a short telephone conversation with the Managing Director (Malaysia) who is British and been in the role for less than a year.

5.1.9.2 The Business Unit

The Malaysian business has been established for 30 years and has been manufacturing for the last 20 years. Most of the senior management team are new to the business including the Managing Director and the Head of Sales. There is also some restructuring going on at the supply chain level. Excelsior's Singaporean subsidiary reports to managers based in the Malaysian business unit.

The business unit was regarded as receptive to learning, change and innovation. The Finance Manager believed this was because the business had gone through many changes in recent years normally not through choice. At the most senior level it has had six Managing Directors in the last ten years. This had led to a business that was quite adaptable. He went on to say that he believed the business was equally receptive to ideas whether they are generated from inside or outside the organisation.

²² The Finance Manager in Singapore has a dual reporting line to the General Manager (Singapore) and the Finance Manager (Malaysia & Singapore).

With regard to being asked to implement new practices the Finance Manager said:

“....there had been lots of small things and not many major changes.”

Although overall strategy is determined by regional and corporate headquarters on a day-to-day basis the business unit has a high level of autonomy. This was described by the Finance Manager as: *“as long as the operation meets its targets there is very little interference.”*

The Finance Manager had very little contact with the UK and was unaware of their level of knowledge about the operation. However, he was confident that the business was understood by Asia-Pacific headquarters largely due to the long serving expatriates, who had previously been based in Malaysia and were still in the region, and the regular visitors to the business from regional headquarters.

5.1.9.3 RBSIC

The Finance Manager is responsible for the RBSIC in Malaysia. He had no previous experience of using a risk based system of internal control. Before the introduction of the RBSIC the business did not have a risk management system and the identification and mitigation of risks did not follow a structured approach, it was undertaken using what he described as a ‘tacit’ approach. Although he did not care to elaborate greatly on what he meant by ‘tacit’ he inferred that it was interchangeable with experience and instinct. He was very confident that the formal description of the practice contained in the three short documents issued by the regional RBSIC team was sufficient for his needs and he followed them exactly. While acknowledging that the

RBSIC could lead to cost savings, as yet, nothing has been identified that will add value to the business. Presently, he was concentrating on the negative side of risk and how it could be mitigated.

The RBSIC was only embedded in the business at the senior management level and the Finance Manager thought it would be very difficult to embed at lower levels as these employees do not think about risk *“it is not their job”*. Although, he believed that most employees are aware of the RBSIC, especially in the factory, he did not feel enough had been done to relate the RBSIC to the local business’s requirements and that the practice is still seen very much as function specific frequently linked to the group insurance function. Personally, he regarded the RBSIC as a *“compliance task”*. He went on to say that although risk management is discussed in the monthly management meeting it is done so in a relatively informal manner and the risk identification process is only undertaken at the senior level. He added the periodic nature of the RBSIC and getting employees to treat the practice as a priority made embedding the practice more difficult. He went on to say: *“Sometimes a risk is regularly reviewed, many are not. Ongoing operational risks are more likely to be reviewed than strategic risks.”*

There were no formal procedures to review whether the RBSIC was working effectively only informal discussions. Previously identified risks were reviewed on an annual basis. The Finance Manager concluded the interview by describing the RBSIC as *“better than nothing.”*

5.1.10 Singapore

5.1.10.1 Data Sources

The data for this case was provided by the General Manager (Singapore), the Finance Manager (Singapore)²³ and the Administration Manager (Singapore). All three are Singaporean. The General Manager has been with the business since its inception in 1989. The Finance Manager and the Administration Manager joined the company in 1998 and 1995 respectively.

5.1.10.2 The Business Unit

The Singapore business was established in June 1989 and is by far the smallest of the three South East Asian businesses. It is a marketing and distribution operation with no production facilities. Eighty percent of its product comes from Australia. It has a very flat operating structure with three departments - marketing and distribution, finance and administration, and logistics.²⁴

The managers all agreed that the business unit was supportive of learning, change and innovation and was equally open to ideas from inside and outside the organisation. Innovation was regarded as a “*must*” as the business is only a sales and marketing operation in a country with a small population. This has led it to adopt a strategy where, because it is too small to develop its own products, it identifies Excelsior products from around the world and then has them repackaged to suit the local

²³ The Finance Manager (Singapore) has a dual reporting line to the General Manager (Singapore) and the Finance Manager (Malaysia & Singapore).

²⁴ It has its own vehicle fleet that delivers directly to clients within 48 hrs of an order being placed.

market. However, it was remarked that due to resource constraints sometimes the business was unable to be as innovative as it would like to be. On a similar note all three managers commented that in the last year there have been lots of new practices. Most of which were seen as having value. However, often they do not have time to manage them properly due to lack of resources.

The General Manager described the subsidiary as “*very independent*”, despite being dependent on the rest of the group for product, adding that sometimes they feel “*a bit cut-off*” from the rest of the organisation. This view was supported by the Administration Manager who said: “*We are a small business that tends to get forgotten. Sometimes information takes a long time to ‘filter-down’ to us*”

There was a general belief that both the corporate and regional headquarters did not understand the Singaporean operating environment. The General Manager gave the following example to support her argument: “*The company sends people to Singapore with Western values who cannot appreciate the differences. e.g. One expatriate was sent to the office and was unhappy about how long a customer was taking to make payment on his last delivery and ordered that he should not receive anymore product until payment had been made. He did not appreciate the seasonal differences in purchasing patterns, at certain times of the year it is normal for payment to be delayed.*”

5.1.10.3 RBSIC

The Finance Manager, who is responsible for the RBSIC, in common with the other two managers had very little previous experience of formal internal control systems and no experience of risk-based systems of internal control, described the previous system of internal control as an informal system that only looked at financial indicators.

She felt unable to comment if the practice operated as intended because none of the risks identified had ever occurred. While the General Manager commented: “*We try to stick close to the practice but have to make some changes*”. She added the practice needs to be “*tailored*” to the local environment allowing for its culture. All the managers commented that they had not found the RBSIC to be of any value in the identification of business opportunities. The General Manager described the RBSIC as a practice that allows you to put a plan in place should something happen. In common with the other two managers she believed the process of identifying risk does enable a manager to review a business and develop a deeper understanding of how it functions but did not assist in the identification of opportunities.

The Finance Manager did not expect the RBSIC to become embedded throughout the business in the near term, to-date it had only been undertaken by senior management and there were no plans to go beyond that. The General Manager added that the RBSIC needs to be more formalised and better understood before it would be possible to embed the practice. In addition more time and resources were needed if the practice were to be institutionalised. When asked how employees in general regarded

the RBSIC the General Manager said: *“People are aware they are accountable for their behaviour.”* While the Finance Manager said: *“They only think about it during the annual review period.”* While the General Manger acknowledging the value of the practice admitted that she and her team regarded the practice as largely an annual bureaucratic task.

The General Manager was keen to emphasis that risk management is a normal part of business and goes on all the time saying. *“Of course risk is always considered whenever taking a business decision. e.g. When deciding how much shelf space to have or making volume predictions”* adding the RBSIC output was sometimes used in this role. However, she and the other two managers regarded the RBSIC as a periodic task, that is done once a year, when the previous years work is updated. The RBSIC was not reviewed to see if it was working effectively.

5.2.0 Landmark

5.2.1 The Company

Landmark is listed on the London Stock and is therefore required to follow UK corporate governance codes and regulations. The company operates in the consumer goods sector and has a turnover in excess of £1 billion. It employs over 14,000 people. Over 90% of its revenues are derived in the UK with less than 1% coming from the Asia-Pacific region.²⁵

²⁵ The company does not provide data for individual joint ventures.

5.2.2 Risk-Based System of Internal Control

Landmark's RBSIC was introduced on the 1st July, 2000.

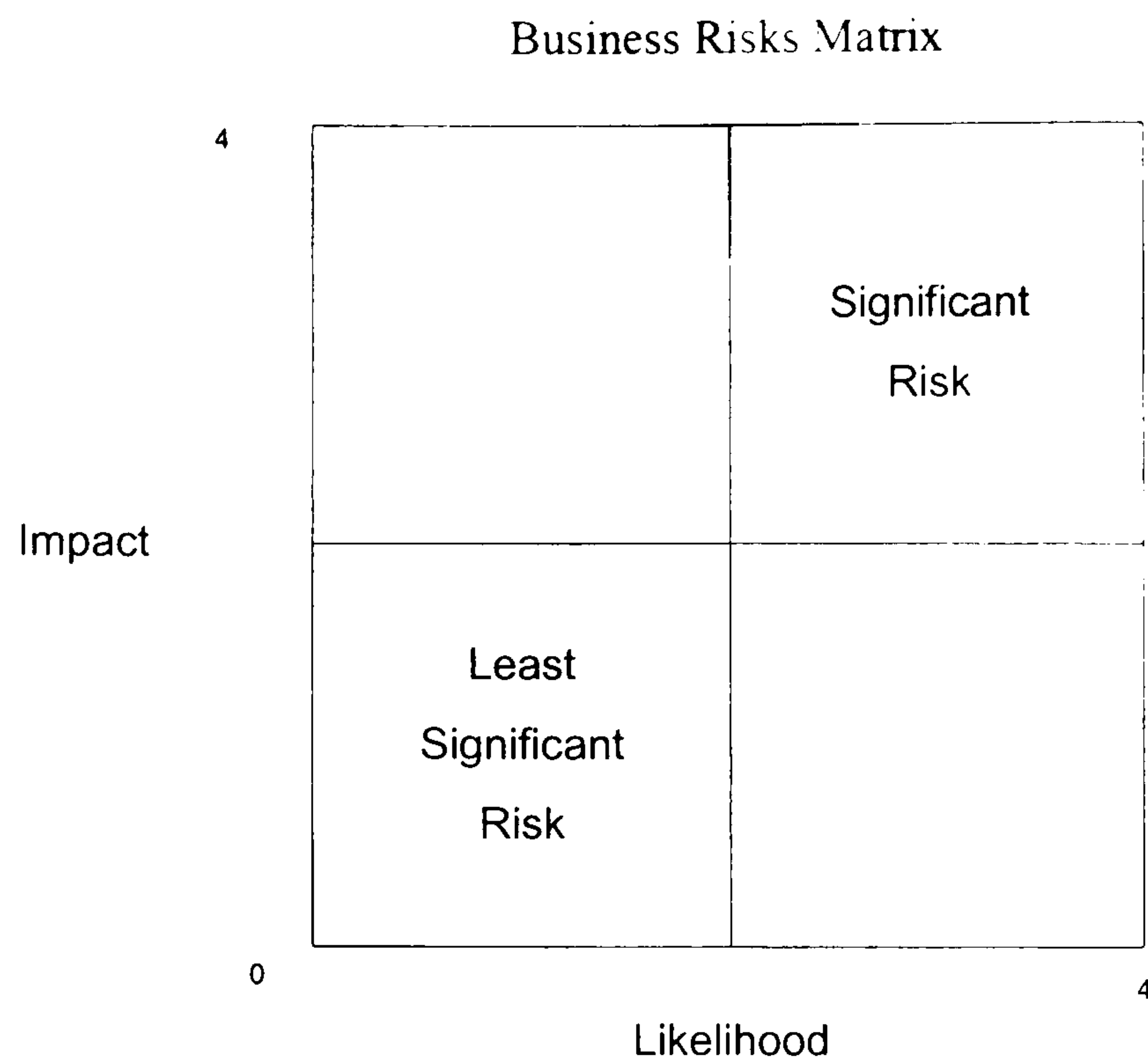
Risks are identified through the adoption of a 'bottom-up' and 'top-down' process where business units identify their strategic goals and objectives and then look at the risks to achieving these goals and objectives. As part of the practice business units are told to pay particular attention to the risk of not taking valuable opportunities.

The RBSIC is carried out every quarter, as well as being undertaken on an ongoing basis when new business opportunities are identified or there are changes in the operating environment.

To determine the potential effects of a risk a standard scoring mechanism is used across the group that assigns values of 0 – 4 to two variables. First, *Risk impact* which refers to the cost to the business should the risk occur. This is normally measured in monetary terms but media impact and physical safety are also considered. Second, *Risk Likelihood* an assessment of how likely a risk is to occur. This is undertaken initially on a *gross risk* basis (risk before controls are applied).

Once a risk is scored it is plotted on a matrix (see Fig. 5.1). The area that attracts the most attention is *Significant Risk*. Once these have been identified controls are applied creating what are known as *net risks*. Businesses own their risks but when a significant risk is identified the controls are considered centrally. If the net risk is still seen as unacceptable to the business further measures may be applied to mitigate the risk including transferring it to a third party. e.g. Outsourcing or buying insurance.

Figure 5.1



Originally the board was only concerned with significant risks but increasingly they are asking about other risks. Risks with a low likelihood / high impact require contingency planning while those with high likelihood / low impact normally require supervisory, management and organisational controls.

Significant risks are analysed by the Risk Committee which is comprised of nine senior executives²⁶ and chaired by the Chief Operating Officer. Each committee member specialises in a specific area of the business. The Committee meets quarterly with a minimum of five members present and has the responsibility to review the RBSIC on behalf of the board.

When a significant risk is identified the business unit is asked to carry out a self-certification exercise to confirm whether the controls they have in place are the same as the ones they had previously documented.

²⁶ Operational and subsidiary directors

The practice is continuous. This is done by appointing risk facilitators in each part of the business that have ownership of the risk. The individuals undertaking this task do it voluntarily and are good communicators. They also have the facility to approach the Risk Management Department with their concerns without their line manager being aware this has happened. (There is also a completely confidential 'hot line' for any employee who wishes to report a risk that they feel is not being adequately mitigated.) All of the risks are recorded and entered into a risk data base. This was designed by Landmark and enables risks to be looked at in many ways. e.g. location, size, type. Risks of a similar type e.g. IT problems that are highlighted by a number of business units are presented to the board as a single risk. The Risk Register is open for any director to view should they wish.

Landmark has a website detailing the RBSIC. The site, which is available to all UK employees via the company intranet, is designed to *"heighten awareness of risk issues and to communicate fully all aspects of the Group's risk process."*²⁷ There are also workshops held throughout the UK to further explain the practice and what is expected of employees.

To date the Director of Risk Management does not believe there have been many problems with individuals identifying risk although he did admit: *"That some people in the organisation feel that risk is a bad thing and to acknowledge its existence may not be advantageous. However, this is not the case with most employees."*

²⁷ Landmark 2003 Annual Report

The Risk Committee reports to the board on inadequately controlled risks and action taken two to three times a year. They also report occurrences and near occurrences.

The Internal Audit Department conduct compliance audits on the controls that the Group relies upon the most to mitigate significant risks. This is undertaken when the gross risk score is very different from the net risk score to confirm the effectiveness of the controls adopted.

5.2.3 Taiwan

5.2.3.1 Data Sources

The data for this section was provided by the Landmark Director of International Market Development, Joint Managing Director (Landmark), Joint Managing Director (Marco Polo²⁸), Marketing Manager (Landmark) and the Operations Manager (Landmark). The Landmark Director of International Market Development is British based in the UK and has been with company for more than five years. The Joint Managing Director (Landmark) has been employed by Landmark for a number of years and has extensive international experience including the Asia-Pacific region. The Joint Managing Director (Marco Polo) is Taiwanese and has had a long career with Marco Polo based mainly in Taiwan with some time spent in the United States. The Marketing Manager (Landmark), along with his Taiwanese equivalent, is responsible for sales and the Operations Manager (Landmark), along with his equivalent, is responsible for distribution and storage, information technology and the

²⁸ Marco Polo is Landmark's joint venture partner in Taiwan for confidentiality reasons its real name cannot be revealed.

company's call centre. Both managers were seconded from Landmark operations in the UK. All three Landmark managers are British and have been with the joint venture since its inception.

5.2.3.2 The Business Unit

Excelsior's Taiwanese based joint venture with Marco Polo commended operations in 2001. When after an extensive review of the risks involved when entering the Taiwanese²⁹ market Landmark decided to adopt a joint venture strategy. Both of the partners have a 50% share in company. It has a board consisting of four directors; two from each partner, in the case of deadlock Landmark has the casting vote.

Marco Polo, is a local conglomerate that began as a trading company over 25 years ago and now has offices in a number of countries. It is a quoted company with majority ownership in the hands of one individual who, with his family members, dominates the company. Its relationship with Landmark started when it began the joint venture. Landmark chose Marco Polo as their partner after an extensive search³⁰ based on their retail and property experience, common ideas for business development, financial strength and experience of international joint ventures.

Initially Landmark sent seven expatriate managers to Taiwan, this number has been reduced to three. Each expatriate manager has a Taiwanese equivalent (or shadow)

²⁹ Landmark entered Taiwan as a low-risk way of testing both the potential for rolling out the new formats internationally, and its business model for expansion in the Far East. While at the same time allowing it to develop skills and knowledge of working in Asia. (Source: Landmark 2003 Annual Report)

³⁰ Landmark met with over 20 potential partners (Source: Director of International Market Development)

they are responsible for the three key areas of Managing Director, marketing and operations.

All three British managers and the Managing Director (Marco Polo) felt that the joint venture was supportive of change, learning and innovation. The Managing Director (Landmark) described adopting new techniques as “...*seen as something to take pride in.*” The Managing Director (Marco Polo) added that: “*Marco Polo is very open to foreign ideas, most of the senior management are Western educated and / or have spent some time working in the West.*”

Generally new practices are tailored to local employee and customer requirements and developed in Taiwan with new practices mandated by corporate headquarters tending not to involve operational issues being more related to product changes and new marketing strategies.

The Managing Director (Landmark), supported by the other two British managers, said that although the business was dependent on Landmark for cash injections and 70% of their product it was very independent “*and this is not necessarily right*”. He speaks to the Director of International Market Development daily and the Business Development Director twice a week other than that his communication with corporate headquarters is very limited.

There was a general feeling among the British managers that, despite the large number of senior personnel who came to visit the business³¹. Landmark corporate headquarters had difficulty in understanding the local operating environment. The Managing Director (Landmark) was the most outspoken in his comments saying:

“They haven’t got a clue outside of the International Department. Landmark is not learning or benefiting from its Taiwanese experience. I was just sent to Taipei and told to get on with it.”

To illustrate his point the Managing Director (Landmark) gave the example of problems caused by corporate headquarters forgetting to make a cash injection into the joint venture, taking 10 days before the payment was finally made. This was because only one person in the Finance Department knew anything about the joint venture and he was on holiday, unreachable and had left no instructions. This led to considerable embarrassment for the Landmark staff at the joint venture, substantial inconvenience and lengthy discussions with the government department responsible for joint ventures who wanted to know where the money was.

A further example was provided by the Operations Manager who was concerned about the lack of understanding of certain local practices such as the custom of using the Lunar Calendar to identify good days to buy a product and that when the newspapers announce it is a good day to make a purchase sales rise.

³¹ The Marketing Manager was concerned that none of the non-executive board members have visited the company and felt it would be helpful if more people came to see the operation.

5.2.3.3 RBSIC

The RBSIC for Landmark's Taiwanese joint venture is undertaken, using a 'top-down' approach, by a risk facilitator (based in the International Department in the UK). In addition a Risk Committee member has been given responsibility for the joint venture. Each quarter changes in previously recognized risks and new risks are identified (in discussions with locally based senior management) and the information is transmitted to the Risk Management Department. The need for the RBSIC to be fully implemented in the joint venture, with risk identification and mitigation undertaken in Taiwan, is acknowledged by Landmark's senior management who asked the researcher to provide them with a report of his findings and make recommendations on how this should be achieved.³²

The Landmark Director of International Market Development remarked that Marco Polo regard the RBSIC as very much a UK requirement and at times are "*quite bemused*" by the whole practice. Given the generally "*poor level*" of corporate governance in Taiwan he did not find this surprising. However, he felt the more Marco Polo saw of the practice the more they appear to be "*appreciating*" the benefits that arise from it.

Existing locally based risk management controls emphasise the operational aspects of the business and in particular health and safety issues. The Operations Manager who has direct responsibility for most of these parts of the business described the health and safety environment in Taiwan as "*not at all close to the UK standard*". He had

³² The researcher was not paid for this work and no contribution was made towards associated expenses.

introduced first-aid training and fire drills in the distribution and storage departments where previously there were no fire drills just occasional tests of smoke detectors. He added considerable attention is paid to what happens at the client site where checks are made on the actions of employees. Problems that had been identified included putting bare wires into an electrical socket to power a drill and placing tools on polished furniture surfaces risking scratching.

He saw his himself operating in a 'fire fighting' role, commenting that as there were not any 'official' risk management standards for the business he regarded it as his responsibility to set his own standards for the parts of the business he managed. The Marketing Manager also acknowledged that a formal risk management process was not in place for the parts of the business he managed. However, the same sorts of checks are in place as would be used in the UK and that given the relatively small size of the business it is possible to operate a constant checking process and work by consensus.

All three Taiwan-based British managers acknowledged the link between risk and opportunity. The Marketing Manager commented that the process of risk identification "*reveals the need for change to meet customer's expectations*". While the Operations Manager said the identification of risks "*provides you with an opportunity to improve what you do, it enables you to look outside the box, and consider more than just day-to-day events*". The Director of International Market Development commented simply that risk management did not have a role to play in the identification of opportunities which he regarded as part of the strategic planning function.

When asked if they believed the RBSIC would eventually be embedded in the business the Managing Director (Landmark) was the most optimistic acknowledging it would take time and that as he had done on other occasions, if necessary, he would be prepared to use external training. The Marketing and Operations Managers were rather more pessimistic making the comments “*You do the best you can*” and “*It will take a life time*” respectively.

The Managing Director (Landmark) felt that the most important factor in institutionalising the RBSIC would be explaining to an individual what it means to him and why it has to be done. He believed the practice was really about change management and culture should not be seen as issue commenting “*it is often used as a smoke screen*”. This view was not shared by the Landmark Director for International Market Development who felt the biggest impediment to the successful institutionalisation of the RBSIC in Taiwan was cultural and the practice would need to be constantly supervised or “*local attitudes*” would become dominant. His assessment was supported by the Operations Manager who felt that culture was “*a huge problem*”. The Managing Director (Marco Polo) agreed with the Managing Director (Landmark) and the Director for International Market Development about the importance of providing employees (especially those lower down the hierarchy) with a detailed explanation of the RBSIC saying that it was important to appreciate that the Marco Polo group only adopted a ‘business planning approach’ to the management of the business fifteen years ago and even now it does not look more than one year ahead. Therefore, employees would find it difficult to relate to such a forward looking, non-reactive, practice.

5.2.4 Hong Kong

5.2.4.1 Data Sources

The data for this case was provided by the Managing Director and the Quality Assurance Manager both of whom are British. The Managing Director was previously Landmark's Group Procurement Director.³³ Before that he had worked in supply chain management for the UK subsidiary of a leading Japanese MNE. He expects to be in Hong Kong for three years if the project is successful. He has a forceful personality and gives the indication that he expects his instructions to be carried out and not questioned.

The Quality Assurance Manager is responsible for the quality management and technical aspects of the business. He has substantial experience of the region having worked in a similar role for a number of other MNEs.

5.2.4.2 The Business Unit

The Hong Kong Joint venture was only established in mid 2003 and had not yet commenced full operations, however, it is expected to grow very quickly assuming a major role in the company's supply chain. The objective of the joint venture is to redefine processes and procedures for Landmark's global supply chain. It will

³³ At the time of the interview he still held this post in addition to his Hong Kong responsibilities but was in the process of moving permanently to Hong Kong to concentrate exclusively on his role as Managing Director of the joint venture.

become Landmark's sole supplier of product from China³⁴. Through supplier sourcing and management in China it is expected to generate reduced costs³⁵, improve margin opportunities for the existing Landmark product portfolio, and assure the quality of both products and suppliers. When it becomes fully operational in 2004 it is expected to have around 100 staff with the vast majority³⁶ based in China.

Ownership of the joint venture is split 50:50 between Landmark and the Hong Kong based company – Regent.³⁷ It has a board consisting of six directors; three from each partner, in case of deadlock Landmark has the casting vote. Landmark chose Regent to be its partner because it had previous experience of working with the company, they have an existing China based infrastructure that they can use as a supply base and they are aware of European standards. Also it is an Anglicised company, the Chief Executive Officer is UK educated, and they have good connections in the UK.

The Managing Director was very confident that the joint venture was open to learning and innovation but was uncertain if the unquestioning obedience of staff was desirable long-term commenting: *“The thirst for knowledge from local recruits is very high, and they are very open minded. Local employees are not as questioning as Westerners. This has advantages when it comes to commencing operations quickly although this may have unfortunate long-term implications.”*

³⁴ China which has been identified as the lowest cost country for sourcing many of Landmark's core products and components that are currently procured within Europe (Source: Landmark 2003 Annual Report) .

³⁵ Its target is to reduce Landmark's overall supplier costs by 10%

³⁶ Expected to reach 90%

³⁷ For confidentiality reasons its real name cannot be revealed.

He viewed the joint venture as relatively independent of corporate headquarters despite Landmark being its sole customer. Every month they have some form of direct contact with the UK. However, the management team has not yet been to the UK and none of the non-exec directors have visited the business.

When asked if Landmark corporate headquarters understood the joint venture's operating environment he responded: *"They have no idea. Senior management and especially the Board and even more especially the non-executive directors have little understanding of the risks involved in getting a global product to market. I am involved in 'pioneering stuff' and it is my job to educate"*.

5.2.4.3 RBSIC

At present the RBSIC does not play an important role at the joint venture. To date the only risk analysis undertaken relating to the business unit was carried out when the decision to form the joint venture was taken. The Managing Director commented on the potentially negative aspects of emphasising risk management suggesting it may make a business and its employees risk averse and less likely to consider new ideas.

When the decision is taken to institutionalise the RBSIC it will be the responsibility of the Managing Director who when comparing his previous experience with systems of internal control with the RBSIC said: *"Control is greater at Landmark but not deeper. The bases are covered but little is done to promote change. In my previous company control was more directed but when a problem was identified action was taken quickly."*

5.3.0 Conclusion

This chapter has introduced the ten embedded case studies developed from the two main research subjects. It has described the individual business units, their approach to learning, change and innovation, their relationship with their respective headquarters and the operation of the RBSIC in their business unit including the degree to which it is perceived by local managers to be embedded in their own organisation.

The next chapter will summarise the overall findings of this research, identifying the five factors identified as playing a key role in the degree of institutionalisation of the RBSIC at Excelsior and Landmark and how they relate theoretical framework introduced in Chapter 3.

CHAPTER 6

OVERALL FINDINGS

6.0.0 Introduction

This chapter will commence with a broad summary of the overall findings. This will be followed by a discussion of the degree to which the RBSIC has been institutionalised in Excelsior and Landmark's Asia-Pacific business units applying the conceptual framework introduced in section 3.7.0. It will then go on to consider the concepts and practices of ceremonial adoption and how it relates to the two research subjects. Section 6.4.0 will introduce the five factors identified as playing a key role in the ceremonial adoption of the RBSIC at both companies discussing their relationship with the theoretical framework developed in Chapter 3.

6.1.0 Broad Statement of Overall Findings

The main thrust of the findings is that, although the degree of institutionalisation of the RBSIC differs across cases, the overarching picture is one of ceremonial adoption.

Firstly, none of the informants believed the RBSIC was embedded in their business units beyond the top layer of management. Knowledge of the practice had in nearly all cases been limited to senior management who in most business units were directly involved with the practice. The majority of managers commented on the need to increase awareness of the practice throughout their business unit adding that junior

employees were unlikely to regard risk management as part of their job. Overall, managers, to quote the Managing Director of Excelsior's Thai subsidiary, felt that it "*would be very challenging*" to embed the practice throughout their business unit.

Secondly, the Excelsior General Manager for Risk and his colleague the Business Continuity Manager acknowledged that although the RBSIC was ongoing for them it was not at the forefront of activities for other staff in the region who only notice risk when it is very apparent and therefore regard the practice as periodic. To a number of managers the RBSIC was little more than an annual exercise, to provide data for the regional headquarters about potential risks, and for this reason tended to be regarded as a one-off annual task which was generally not updated during the year. For example, the Finance Manager of Excelsior's Chinese business unit described the practice as periodic and "*a very specific task in itself*". While the Finance Manager of Excelsior's Singaporean business unit commented "*They (employees) only think about it (the RBSIC) during the annual review period*".

Thirdly, although the Managing Director of Excelsior's Thai subsidiary said risks were discussed during the year, he also admitted that the practice was "*not that urgent*" as the RBSIC "*is not seen as directly affecting the P & L*" and suggested that discussions about risks tended to be informal.

Other managers admitted that the RBSIC was regarded a specific separate task outside of the normal activities of management and that it tended to be forgotten outside the annual data gathering process. The Excelsior Regional Director of Finance suggested the practice should only be used when required. The low priority attached to the

institutionalisation of the RBSIC was clearly demonstrated by the absence of both regular reviews of the risks identified during the annual risk identification process and ‘checks and balances’ designed to monitor whether the practice was being operated effectively.

A broad overall finding therefore is that the RBSIC has failed to become part of the ‘normal’ operating practices of the company – clearly shown by the failure of all but one business unit to systematically review the risks identified during the previous annual risk review process and identify new risk outside of the annual risk review.

Reasons for this relative lack of institutionalisation in the subsidiaries can be clustered around three major conceptual areas, each of which has resonance with wider organizational theory. They are:

1. A lack of prioritisation, treating the institutionalisation of the RBSIC as an operational rather than a strategic decision.
2. Only attending to the RBSIC when it became the focus of attention.
3. Relegation of the RBSIC to an annual reporting exercise.

Regarding the first point, many authors have shown that a failure to prioritise strategic decisions is likely to greatly reduce the chances of successful implementation.

Putting these practices into action when they are treated as operational decisions is likely to lead to them being poorly implemented, or not implemented at all (Hickson et al, 2003; Miller et al, 2004).

The second point almost perfectly mirrors Cyert and March's (1963) notion of 'problemistic search' and Weick's (1995) notion of enactment which permeate wider organization theory. According to these perspectives, managers only pay attention to issues when they become a problem, or when they come into focus in the enacted environment. Otherwise they remain unattended, often as un-noticed issues, with other factors being afforded greater strategic importance (links here with point one are evident).

The third point also mirrors another of Cyert and March's (1963) concepts namely that of 'sequential attention to goals'. Here, managers only attend to issues as they arise and in what seems to them a logical sequence given the perceived urgency (or not) of the issue. In the case of the RBSIC, relegation to being important only at annual reporting time is an example of such a process.

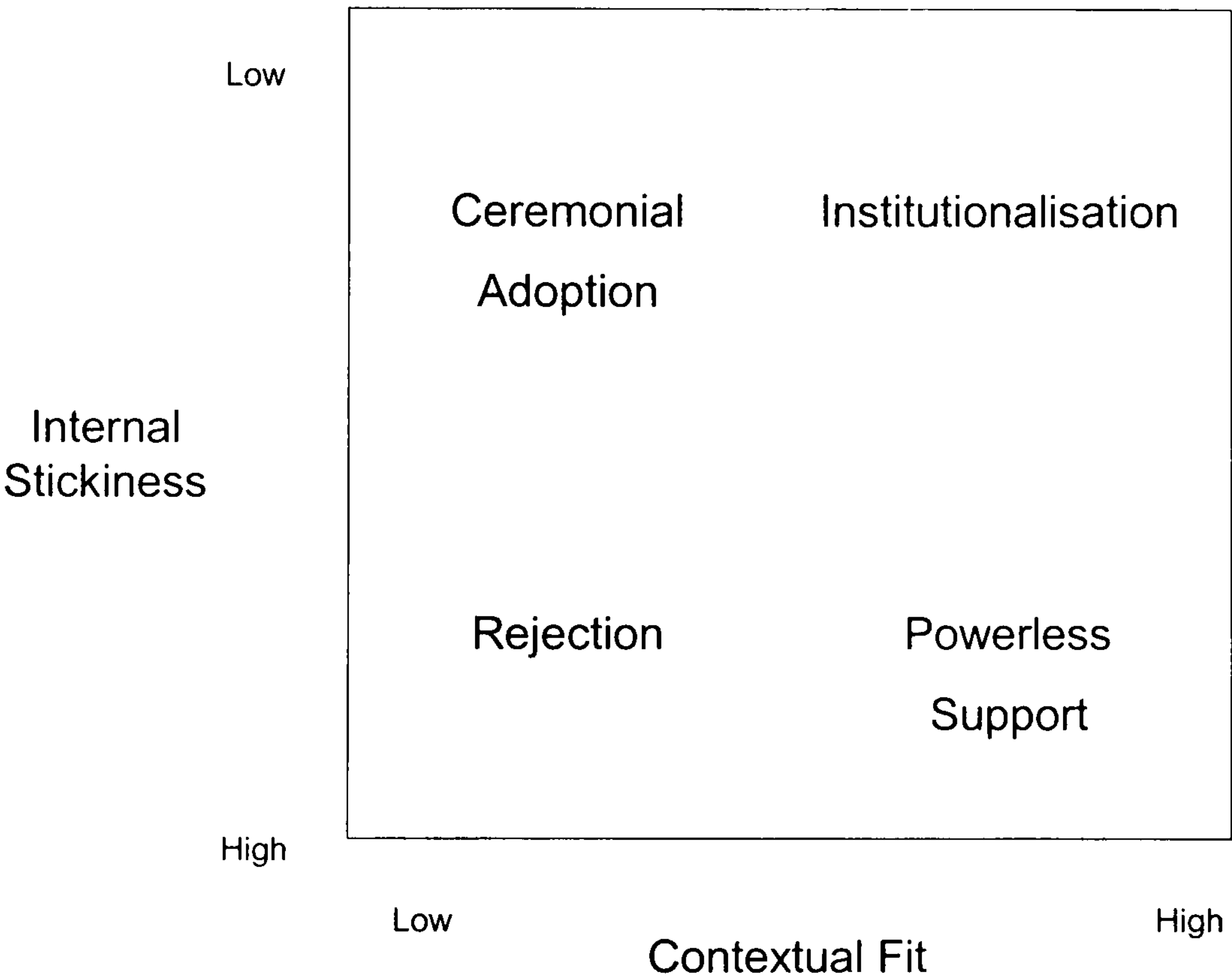
The ability of managers to practice these three principles contributes to an overall lack of embeddedness of the RBSIC at the subsidiary level. The result is ceremonial adoption. The extent to which individual business units ceremonially adopt the RBSIC is directly linked to their implementation and internalisation of the practice, which is related, to varying degrees, to the five factors identified as playing a key role in the ceremonial adoption of the RBSIC that will be introduced in section 6.4.0.

The next section will discuss the degree of institutionalisation of the RBSIC at the business units included in this study.

6.2.0 Degree of Institutionalisation

Returning to the four patterns of adoption (see Figure 6.0), introduced in the conceptual framework discussed in section 3.7.0, this research has found that none of the business units could be placed in the category of *Institutionalisation* in all cases the levels of both implementation and internalisation were insufficient.

Figure 6.0
Likelihood of the Successful Institutionalisation of the RBSIC



Similarly none of the business units could be placed in the category of *Rejection*. In all cases the practice had been introduced to the individual organisations and a sufficient level of implementation was apparent that the practice could not be described as rejected by any of the business units.

Furthermore, the data did not suggest that any business units could be placed in the category of *Powerless Support*. None of the business units had high levels of

internalisation combined with low levels of implementation. Although a number of managers commented that they could appreciate the potential value of the RBSIC they lacked the necessary understanding of the practice to internalise it. This was due to a number of reasons including a poor explanation of the RBSIC by the source, an absence of prior related knowledge and the incompatibility of the values and norms underlying the RBSIC with those found in the recipient business unit.

As previously stated, although the degree of institutionalisation of the RBSIC differs across cases, all of the business units in this study can be placed in the *Ceremonial Adoption* category. However, on reflection the description of the category needs to be revised from the one originally suggested in section 3.7.0. This research has found that ceremonial adoption is present without the relatively high level of implementation proposed by Kostova and Roth (2002: 220). Kostova and Roth's research involved the transfer of quality management practices. It can be argued that the implementation and results of the introduction of quality management practices can be more easily measured than is the case with corporate governance practices (Teen, 2005) and that the degree of implementation necessary for ceremonial adoption is higher than would be the case with a corporate governance practice, such as the RBSIC, whose value may only be revealed on a periodic basis, if at all. Overall, the data suggest that it is easier to claim that the RBSIC has been implemented than would be the case with some other practices, which require the introduction of processes with a greater visibility inside the organisation, and whose level of implementation can be more effectively measured. In both Excelsior and Landmark implementation is far from optimal but enough for them to claim that the RBSIC rules (through the annual provision of risk data) are complied with while following their

form rather than their substance.

Given that the level of implementation required for ceremonial adoption is less than suggested by Kostova and Roth (2002: 20) it will be easier for companies to adopt a ‘box ticking’ approach (where the corporate governance tool is decoupled from a transformation in the firm’s corporate governance culture (Aqgilera, 2005: S43)) to corporate governance whereby a company claims in its annual report that in accordance with the Turnbull guidelines it has implemented an ongoing process for identifying, evaluating and managing the significant risks faced by the company even though the guidelines have been enacted in a superficial manner (either intentionally or otherwise) and are less than fully effective. This ‘comply or explain’ ethos, a feature of UK corporate governance, can lead to companies adopting a suboptimal ceremonial adoption approach to corporate governance structures and practices simply to avoid the threat of sanctions from failing to comply (Keasey et al., 2005: 41), thereby, gaining legitimacy, as measured by the approval of regulatory agencies and investors as well as public endorsement in the business media (Staw and Epstein, 2000: 525).

Ceremonial adoption, in the form of box-ticking, is evident at two levels in this study – the individual business unit and for the company as a whole. Individual business units are not fully implementing or internalising a practice that in many cases they do not value and / or understand but are still providing the required (if suboptimal) data to their respective corporate headquarters, thereby suggesting that the Turnbull guidelines are being followed. As stated in the Hampel Report (see 2.3.0) “...*box-ticking can be seized on as an easier option than the diligent pursuit of corporate*

governance objectives.” (Hampel, 1998: Section 1.14). The provision of data to headquarters was not a priority and was generally treated as a separate exercise outside of the normal management processes of individual business units with the data normally collected on an annual basis by employees who lacked the necessary resources (including knowledge) to undertake the practice effectively. After the data has been collated and analysed at corporate headquarters, and presented to the board of directors, the companies are then able to take a ‘boiler plate’ approach to governance that enables them to make a statement in their annual report (See 4.3.3) that they are meeting the requirements of the Turnbull guidelines and the Combined Code even though the guidelines have not been institutionalised in the company and the potential value of the RBSIC has not been fully realised. The performance of the MNE as a whole is affected by the behaviour of individual business units. To the extent that they have not institutionalised the RBSIC, the company as a whole cannot fully institutionalise the practice.

In the next section ceremonial adoption, how it relates to the findings of this research and its implications for the two companies, is discussed in greater detail.

6.3.0 Ceremonial Adoption

Ceremonial adoption is the formal adoption of a practice on the part of the recipient unit’s employees for legitimacy reasons, without their believing in its real value for the organisation (Meyer & Rowan, 1977).

By ceremonially adopting a practice mandated by its parent a business unit

demonstrates that it is acting on a collectively valued purpose in a proper and adequate manner. The incorporation of institutionalised elements provides an account of its activities that protects the organisation from having its conduct questioned (Scott and Lyman, 1968). The organisation becomes legitimate (Meyer and Rowan, 1977: 349). The incorporation of structures with high ceremonial value, including those reflecting the latest expert thinking, such as the RBSIC, or those with the most prestige, makes the position of an organisation more favourable (Meyer and Rowan, 1977: 351). It demonstrates socially the fitness of the business unit.

Ceremonial Adoption can be as a result of both internal and external pressures.

External legitimacy pressures for ceremonial adoption exist when local business unit employees feel an external coercive pressure to adopt a practice. The likely motivation for this would be achieving legitimacy with the parent company (DiMaggio & Powell, 1983; Zucker, 1987). In the context of MNEs ceremonial adoption occurs when an international business unit formally complies with the request of the parent to implement a practice but does not form positive attitudes towards it. (This may be because of high uncertainty about a practice or a belief that it is not valuable (Meyer & Rowan, 1977; Tolbert & Zucker, 1983)). Kostova and Roth (2002: 220) suggest that ceremonial adoption is particularly likely in the case of a MNE subsidiary because there is a high probability these two conditions will occur.

Internal legitimacy pressures for ceremonial adoption exist when legitimacy pressures arise from inside the local business unit. The business unit reacts to internal pressures to improve its reputation within the MNE in the belief that by acquiescing to the parent's mandate to implement a practice, it increases its reputation and internal

legitimacy, potentially improving its access to resources and other forms of organisational support that are available from the parent. This data did not provide any examples of this occurring at the business units included in this research.

Because standardised organisational practices must confront technical variations and anomalies, the generalised rules of an institutional environment are often inappropriate to specific situations (Meyer and Rowan, 1977: 355). This means that ceremonial adoption can have a detrimental affect on a business unit because activities celebrating institutional rules, although they count as virtuous ceremonial expenditures, can be costly reducing the overall efficiency of the business unit (Meyer and Rowan, 1977: 355). On the other hand a business unit that neglects ceremonial requirements may be unsuccessful at externally portraying its efficiency (Meyer and Rowan, 1977: 356). Excelsior Chinese subsidiary provides an example of a business unit, as a result of external pressure, making a virtuous ceremonial expenditure, designed to portray its efficiency, to the detriment of the overall business. In this case the business unit, following its parent's instructions to implement the RBSIC, incurred costs in doing so but derived little value from the practice because they lacked the necessary knowledge to undertake the RBSIC properly.

The uncertainty regarding the real value of the practice may increase when it is being transferred into a foreign institutional environment because the practice tends to reflect the institutional environment of the parent company where the practice was developed and established (Kogut, 1993). Because of this institutional duality, the legitimacy pressures on subsidiaries to adopt the practice are particularly strong and complex (Kostova & Zaheer, 1999). Subsidiaries concerned with establishing

legitimacy with both the external host country institutional environment and the internal parent company institutional environment of the MNE may find it difficult to reconcile these two institutional pressures. An example which encapsulates the tensions arising from institutional duality can be seen at Excelsior's Malaysian subsidiary where the Finance Manager commented that it would be very difficult to get employees at the lower levels of the company hierarchy to consider risk because "*it is not their job*" and they do not appreciate the value of risk management unless it directly affects them.

In this study the regulatory institutional profile of the parent company, reflected in the corporate governance requirements of the UK Combined Code, requires and enforces the RBSIC, while the regulatory, cognitive and normative profiles, of the local business unit's national context, are generally less favourable. This combination will have a dual effect. It will lead a subsidiary's employees to feel uncertain about the efficiency of the practice because they do not have the knowledge and the cognitive categories they need to correctly understand and interpret it. The practice is also suspect because it is not consistent with their own values and beliefs regarding risk management and corporate governance. The view may form within the subsidiary that the practice is inefficient and of little value to the subsidiary, even though the parent organisation believes otherwise (Kostova and Roth, 2002: 220). When this occurs the likelihood of ceremonial adoption happening is much greater. Examples of this can be seen at both Excelsior's Singapore and Japanese subsidiaries: In Singapore the General Manager said she implemented the RBSIC because "*it is my job and I am required to do what is asked of me*". At the same time she suggested the approach to risk adopted by the business unit, outside of the RBSIC, was adequate for

its needs. In Japan the Finance Director remarked about the RBSIC: “...*we do not care about it, it provides no additional value. Normal business practices involve the consideration of risk and that provides sufficient information and value.*”

Another reason for ceremonial adoption could be because the business unit views the RBSIC simply as a fad, arising from the parent’s institutional setting which is distinct from the local setting of the subsidiary (Kostova and Roth, 2002: 220). The data did not reveal this view to be prevalent in any of the business units included in this study.

The next section will consider the factors in the ceremonial adoption of the RBSIC at Excelsior and Landmark’s Asia-Pacific business units.

6.4.0 Factors in the Ceremonial Adoption of the RBSIC

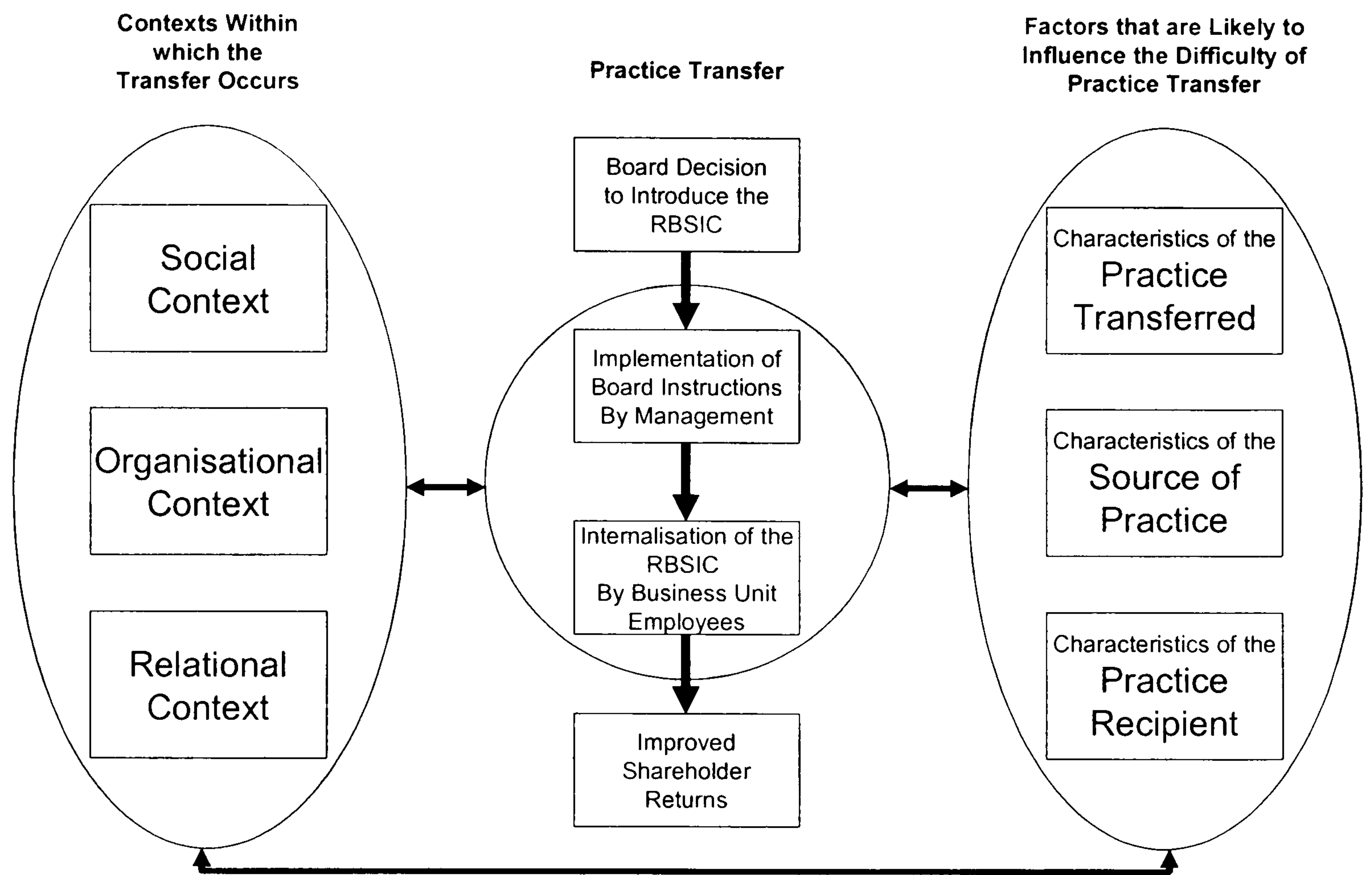
The previous discussion has examined the scope of ceremonial adoption ranging from variation in, for example, values and attitudes at the subsidiary level, to the characteristics of the parent-subsidiary relationship (and a host of other factors in between). Now we turn to the question of scale of ceremonial adoption. Whilst all of the business units in the sample show strong evidence of ceremonial adoption, the extent to which it can be described as ceremonial (and the reasons for this) vary.

Broadly, the data indicates that the sample organisations differ in their scale of adoption due to at least one of the following factors: national context, organisational context, the practice (RBSIC), motivation and transfer process. Each is discussed more fully in the following five chapters. The remainder of this chapter will introduce the five factors and how they relate to elements of the theoretical

framework (see Figure 6.2) introduced in Chapter 3.

Figure 6.2

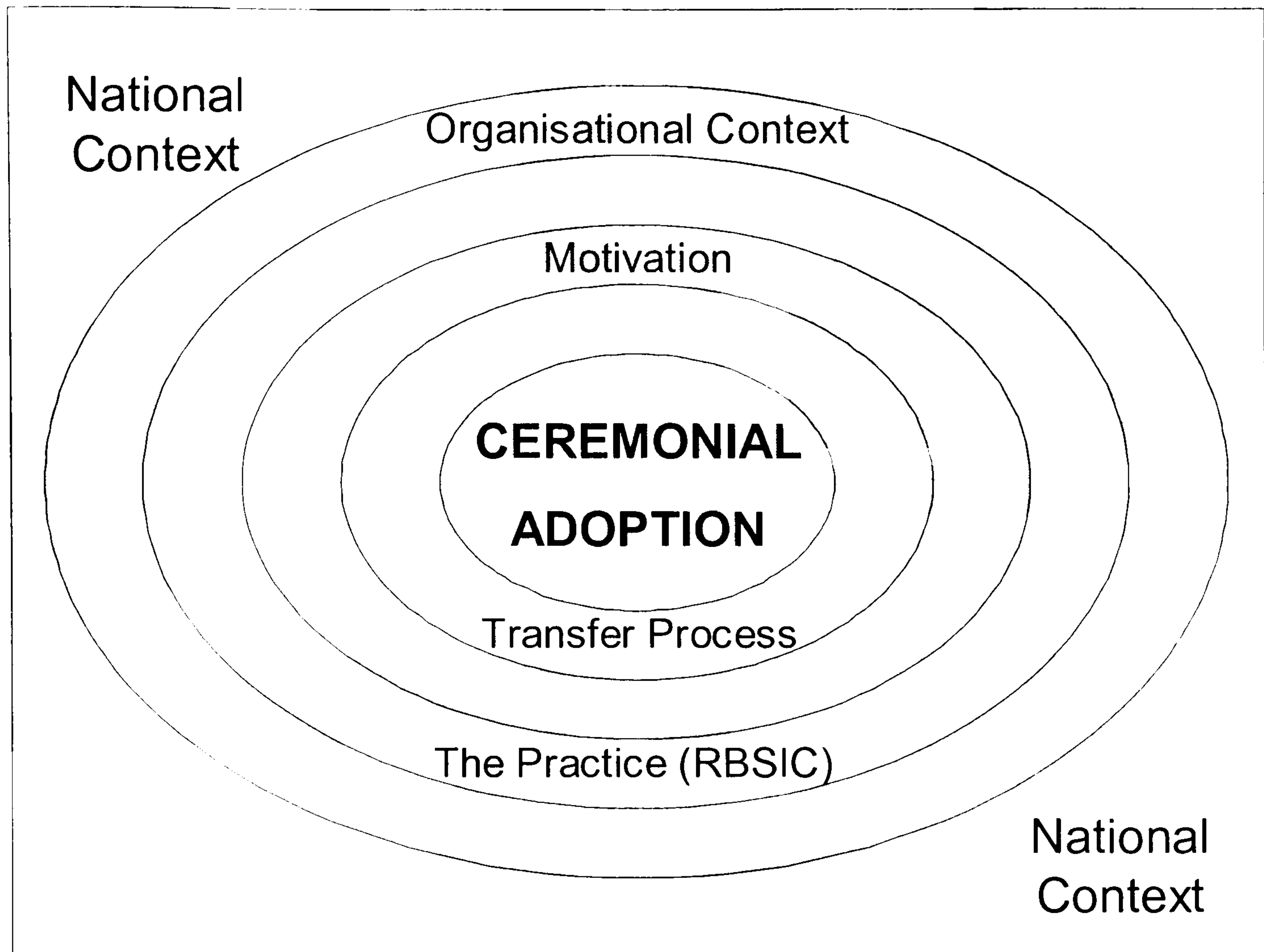
Framework for the analysis of the implementation and internalisation of a Turnbull based system of internal control in the Asia-Pacific subsidiaries and joint ventures of UK listed companies



Drawing on the variables and sub-variables in the theoretical framework a model can be drawn to illustrate how these five factors influence the degree of institutionalisation of the RBSIC in the Excelsior and Landmark Asia-Pacific business units (See Figure 6.3). Each factor will be discussed in turn identifying the key theoretical framework variables and sub-variables. The discussion begins by considering first context (national and organisational) and then considers the characteristics of the transfer process itself.

Figure 6.3

Key Factors in the Institutionalisation of the RBSIC



6.4.1 National Context

The transfer of the RBSIC takes place inside a national context. Differences in national context will directly influence the likelihood of the successful institutionalisation of the RBSIC with some countries providing a more favourable environment than others. (The variables and sub-variables of the theoretical framework that play an important role in shaping the national context are listed below in Table 6.0.) Three sub-factors were identified as having an important role in the development of the national context within which the transfer of the RBSIC occurs — *perceptions of risk, national culture and the regulatory environment.*

Table 6.0

Key Theoretical Framework Variables and Sub-variables Influencing the National Context

Sub-Factors	Theoretical Framework Variables	Theoretical Framework Sub-Variables
Perceptions of Risk	Social Context	Cognitive Normative
National Culture	Social Context	Cognitive Normative
Regulatory Environment	Social Context	Regulatory

Social context was the key theoretical framework variable in the shaping of the national context playing a role in all of the three sub-factors. However, the importance of social context sub-variables varied among the sub-factors. The *regulatory* sub-variable played a key role in the regulatory environment of recipient countries (see 7.3.0) but was not important in the other two sub-factors. National corporate governance standards, with the exception of Australia, differed considerably with those found in the United Kingdom increasing the likelihood that the RBSIC would not be institutionalised (see 7.3.0).

The *cognitive* sub-variable played an important role in perceptions of risk and national culture. It was reflected in the shared social knowledge employees had regarding risk (see 7.1.0) and the concept of risk management (see 7.2.1) that was negative and limited respectively; their differences in what was perceived as ethical and their attitudes to ethical policies that were a relatively new concept to many employees (especially Landmark) (see 7.2.2); and their attitudes to whistle blowing which differed considerably throughout the region at both the national and intra-business unit level (see 7.2.3).

The *normative* sub-variable also played a key role in perceptions of risk and national culture. It tended to reinforce negative attitudes to risk and risk management as the practice of identifying and managing risk was normally perceived as a search for events that would negatively impact upon the business unit and was contrary to the norms of the majority of recipient business units (see 7.1.0 and 7.2.0). The likelihood that an ethical and whistle blowing policy would be institutionalised was also a reflection of the beliefs, values, social norms and assumptions of the employees of a business unit, which are reflected in their national culture which was in the majority of cases unsupportive of both policies (see 7.2.2 and 7.2.3).

6.4.2 Organisational Context

Organisational context refers to the role of organisational factors in the institutionalisation of the RBSIC. Even if the national context is supportive of the RBSIC the organisational context may not be favourable. This can lead to difficulties in transferring the RBSIC. (The variables and sub-variables of the theoretical framework that play an important role in shaping organisational context are listed below in Table 6.1.) Two sub-factors were identified as having an important role in the development of an organisational context that would support (or not) the institutionalisation of the RBSIC in a business unit – *support for new practices* and *organisational differences*.

Table 6.1

Key Theoretical Framework Variables and Sub-variables Influencing a Business Unit's Organisational Context

Sub-Factors	Theoretical Framework Variables	Theoretical Framework Sub-Variables
Support for New Practices	Organisational Context	General Support for Learning, Change and Innovation
Organisational Differences	Organisational Context	Absorptive Capacity

Unsurprisingly organisational context was the key theoretical framework variable in the development of the *organisational context*. Once again the importance of theoretical framework sub-variables varied among the sub-factors. *General support for learning, change and innovation* played a key role in the likelihood that a business unit would be supportive of new practices with three quarters of managers believing this to be the case in their business unit (see 8.1.0).

The *absorptive capacity* of a business unit, including the resources made available to business units for the institutionalisation of the RBSIC and the quality of intra-business unit communications (regarded positively and seen as improving by most managers) played an important role in determining organisational differences and was itself influenced by many variables that differed among business units (see 8.2.0).

6.4.3 The Practice (RBSIC)

The practice refers to the RBSIC and this section is concerned with the understanding individual business units and managers have about the practice and the factors that influence their understanding. Even if the national and corporate contexts are

compatible with the RBSIC should managers lack an understanding of the practice it is unlikely to be successfully transferred. (The variables and sub-variables of the theoretical framework that play an important role in the understanding of the RBSIC in a business unit are listed below in Table 6.2.) Two sub-factors were identified as having a key role in understanding the reasons for the RBSIC – *awareness of the purpose of the RBSIC* and *related knowledge*.

Two of the theoretical framework variables played a role in a business units understanding of the RBSIC – *characteristics of the practice transferred* and *characteristics of the practice recipient*.

Table 6.2

Key Theoretical Framework Variables and Sub-variables Influencing the Practice (RBSIC)

Sub-Factors	Theoretical Framework Variables	Theoretical Framework Sub-Variables
Awareness of the purpose of the RBSIC	Characteristics of the Practice Transferred	Causal Ambiguity
Related Knowledge	Characteristics of the Practice Transferred	Causal Ambiguity
	Characteristics of the Practice Recipient	Absorptive Capacity

Causal ambiguity played a key role in the awareness of the purpose of the RBSIC and related knowledge. The level of causal ambiguity was a reflection of the ambiguity about the factors relating to the reasons for the RBSIC (see 9.1.0), the varying levels of knowledge concerning risk identification (see 9.2.0) and an absence of appropriate documentation (explicit codified knowledge) and training about the RBSIC. A key

reason for this identified by a small majority of Excelsior managers (especially more junior managers directly involved in the practice) and all of the Landmark managers was the poor flow of information about the RBSIC from the source of the knowledge.

Absorptive capacity played an important role in the sub-factor – related knowledge.

The absence of prior related knowledge, specific to the operation of the RBSIC, necessary to develop the absorptive capacity required to institutionalise the practice was apparent in the majority of cases (see 9.2.0).

6.4.4 Motivation

Motivation refers to the degree to which both the source and the recipient are motivated to institutionalise the RBSIC at the recipient unit. Even if the national and corporate contexts are compatible with the RBSIC and the understanding of the RBSIC among business units and their managers is high, if the source and / or the recipient are not motivated to institutionalise the practice, it is unlikely to be successfully transferred. (The variables and sub-variables of the theoretical framework that play an important role in determining the levels of motivation to institutionalise the RBSIC at the source and recipient are listed below in Table 6.3.). Two sub-factors were identified as having a key role determining the level of motivation to institutionalise the RBSIC – *the source of the RBSIC* and the *recipient business unit*.

Four of the theoretical framework variables played a role in the motivation of the recipient to institutionalise the RBSIC – *characteristics of the source of the practice*,

characteristics of the practice recipient, relational context and characteristics of the practice transferred.

Table 6.3

Key Theoretical Framework Variables and Sub-variables Influencing a Business Unit’s Levels of Motivation

Sub-Factors	Theoretical Framework Variables	Theoretical Framework Sub-Variables
Source of the RBSIC	Characteristics of the Source of the Practice	Motivation
	Characteristics of the Practice Recipient	Motivation
Recipient Business Unit	Relational Context	Dependency
	Characteristics of the Practice Transferred	Unprovenness
	Characteristics of the Practice Recipient	Motivation

Motivation at the source of the practice to institutionalise the RBSIC was identified primarily as the need to meet the recommendations of the Turnbull guidelines, therefore, becoming legitimate with the UK Combined Code on Corporate Governance. However this reason (and others suggested by headquarters informants) had not been fully explained to local business units (see 10.1.0) reducing their motivation to institutionalise the practice.

Data relating to the *motivation of practice recipients* showed that a consensus did not exist among Excelsior managers as to the degree to which headquarters managers were motivated to institutionalise the RBSIC. The Landmark managers who were prepared to comment were unanimous in their belief that the practice was not

regarded as important by their corporate headquarters (see 10.1.0). If a business unit's employees believed that corporate headquarters was not motivated to institutionalise the RBSIC it is likely, in turn, to have reduced their levels of motivation.

Over three-quarters of the business unit managers did not believe their career advancement inside the MNE was *dependent* on their becoming internally legitimate with headquarters through the successful institutionalisation of the RBSIC. This led to a decrease in their levels of motivation to institutionalise the practice (see 10.2.2).

The *unprovenness* of the RBSIC played an important role in the level of motivation to institutionalise the practice at the recipient unit. Managers were unsure of the value of the practice and what benefits could be gained from its institutionalisation thereby reducing their support for the practice (see 10.2.3).

A number of additional reasons were given as to why individual managers were motivated to institutionalise the RBSIC although no clear patterns could be identified (see 10.2.4).

6.4.5 Transfer Process

Transfer process refers to actual transfer of the knowledge relating the RBSIC. Even if the national and corporate contexts are compatible, the understanding of the RBSIC among business units and their managers is high and both the source and the recipient are motivated to institutionalise the practice, if the transfer process is not undertaken

effectively, the practice is unlikely to be successfully transferred. (The variables and sub-variables of the theoretical framework that play an important role in determining the transfer process are listed below in Table 6.4.). Three sub-factors were identified as having a key role in the transfer process – *relationship with headquarters, role of the gatekeeper* and *knowledge retention*.

Four of the theoretical framework variables played a role in the transfer process – *relational context, characteristics of the practice transferred, characteristics of the source of the practice* and *characteristics of the practice recipient*.

Table 6.4

Key Theoretical Framework Variables and Sub-variables Influencing the Transfer Process

Sub-Factors	Theoretical Framework Variables	Theoretical Framework Sub-Variables
Relationship with Headquarters	Relational Context	Arduous Relationship
	Characteristics of the Practice Transferred	Causal Ambiguity
Role of the Gatekeeper	Relational Context	Trust
	Characteristics of the Practice Transferred	Causal Ambiguity
	Characteristics of the Source of Practice	Perceived Credibility
	Characteristics of the Practice Recipient	Motivation
Knowledge Retention	Characteristics of the Practice Recipient	Retentive Capacity

Causal ambiguity played an important role in the relationship with headquarters and role of the gatekeeper sub-factors. The ambiguity about the features of the context into which the RBSIC was being transferred by both headquarters and the gatekeeper

increased the likelihood of casual ambiguity occurring making it more difficult for them to identify the reasons for difficulties in the practice transfer (see Chapter 5 and sections 11.1.0 and 11.2.0).

The relationship between headquarters and the recipient unit in a number of cases (especially Landmark) was regarded as distant indicating the presence of an *arduous relationship* further increasing the likelihood that headquarters personnel involved in the transfer of the RBSIC would lack an understanding of the features of the context to which the RBSIC was being transferred (see 11.1.0).

The importance of the role of the gatekeeper in the transfer process at Excelsior business units was supported by the perception that the regional RBSIC team were a *credible trustworthy* source of knowledge about the RBSIC thereby facilitating the transfer of the practice to individual business units (see 11.2.0). However, the heavy reliance on the regional RBSIC team, matched by the high levels of support they provided, had a *de-motivating* effect on recipient units who rather than developing and retaining knowledge about the RBSIC chose to rely on the regional RBSIC team when undertaking the practice (see 11.2.0).

With the exception of the Asia-Pacific headquarters and Australia, an absence of *retentive capacity* relating to knowledge about RBSIC was apparent among all Excelsior business units, with reliance on the regional RBSIC team regarded as a substitute for developing the capability to retain knowledge about the practice (see 11.3.0).

6.5.0 Conclusion

The main thrust of the findings is that, although the degree of institutionalisation of the RBSIC differs across cases, the overarching picture is one of ceremonial adoption. Albeit without the relatively high level of implementation proposed by Kostova and Roth (2002: 220). None of the informants believed the RBSIC was embedded in their business units beyond the top layer of management. Furthermore the practice was generally regarded as a specific separate task outside of the normal activities of management, that was a low priority operational task imposed upon business units by their headquarters, that tended to be forgotten outside the annual data gathering process and was generally not updated during the year. A broad overall finding therefore is that the RBSIC has failed to become part of the 'normal' operating practices of the company.

This chapter has presented the broad findings of this research identifying the important variables and sub-variables in the ceremonial adoption of the RBSIC at Excelsior and Landmark's Asia-Pacific business units. The next five chapters, incorporating data collected at the Excelsior and Landmark corporate headquarters, the two meetings at Peninsula's corporate headquarters and individual interviews with people not directly connected with the two companies, will proceed on a cross-case basis to analyse the five factors identified in the ceremonial adoption of the RBSIC, with the objective of developing an understanding of the degree of institutionalism found in each of the embedded case studies and identifying patterns in the data about the implementation and internalisation of the RBSIC.

NATIONAL CONTEXT

7.0.0 Introduction

Both national and organisational context were found to influence the degree of institutionalisation of the RBSIC in the Excelsior and Landmark Asia-Pacific business units. This chapter will consider the role of national context. The transfer of the RBSIC is embedded inside a specific national context consisting of the regulatory, cognitive and normative institutions that constitute a country institutional profile (CIP) (Kostova (1999) (see 3.5.1). Differences in these three components of the source and recipient country's respective CIPs are likely lead to country-level effects on the success of practice transfer, with some countries providing more favourable environments for the transfer of practices and others presenting a number of difficulties and challenges.

This research identified three sub-factors as having an important role in the development of the national context within which the transfer occurs. Each one is considered in a separate section in this chapter: The first – *perception of risk* – discusses the understanding of risk in local business units; the second – *national culture* – discussess the influence of national culture on the institutionalisation of the RBSIC with particular attention to its affect on ethical policies and whistle blowing; and the third – *regulatory environment* – discusses differences in the national corporate governance environments of the recipient countries and how they could influence the institutionalisation of the RBSIC.

7.1.0 Perception of Risk

The RBSIC is based on the core assumption that a business unit understands the type and extent of its key risks in sufficient detail to be able to identify, assess and manage them effectively. If individual managers perceive risk differently then the quality of data about the risks faced by individual business units that are communicated to corporate headquarters and incorporated into the company's central risk database will vary. In turn, this is likely to reduce the company's capacity to effectively evaluate risks throughout its business. (A business unit's capacity to identify risks will be discussed in Chapter 9).

Attitudes to risk differed considerably among managers both from country to country and on an intra office basis. A number of less senior managers viewed risk from their own 'locally rational' perspective. This was especially apparent among managers involved with the finance function who tended to only consider the financial aspects of risk. The senior managers who were responsible for the whole business unit or a substantial part of its operations were more likely to adopt a more comprehensive approach to risk. This was clearly demonstrated by the two Excelsior managers in China. The Finance Manager of Excelsior's China subsidiary gave the following example of risk: *"You need to sell on credit to increase sales and profits but by doing so you are increasing risk."* While his manager the General Manager Finance described risk as: *"Anything you do not plan ahead for.....when you have not factored in possible change."*

A similar pattern existed among the managers interviewed at Landmark. Managers, below managing director level, tended to view risk from their own often limited perspective e.g the Operations Manager used risk and health and safety interchangeably.

A possible explanation for differences in perceived responsibilities for risk could be the hierarchical nature of the national culture found in all of the countries in this study with the exception of Australia¹. This may discourage managers from considering risk beyond their own local rationality. In addition they may be seen to be assuming the role of a more senior manager, therefore behaving in a manner that could be regarded as disrespectful by senior colleagues.

Perceptions of risk could also be influenced by local corporate governance arrangements (see 2.6.0). Managers are less likely to consider a risk when their previous experience has not led them to consider it as being very likely to occur. For example, this may be because their key suppliers were companies that were part of the group of companies to which they belonged (possibly involving cross-shareholdings) or directors of their company sat on the boards of their main suppliers. This considerably reduced the likelihood of disruptions in supply and opportunistic behaviour by their suppliers. Further, examples of how local corporate governance arrangements can influence perception of risk can be found in Section 2.6.0.

Although the majority of Excelsior's Asia-Pacific managers acknowledged that profits are in part determined by the willingness of a business to take risks, consistent

¹ See Hofstede's fifth dimension (section 3.5.1.4)

with the findings of March and Shapira (1987: 1407), who found that managers appear to associate risk with negative outcomes, none of the managers defined risk as an outcome that could be better than expected focusing only on the downside of any risk. Supporting the findings of Conklin (2002), for many managers risk simply meant the probability of losing money through negative variations in revenues, costs, profits, and market shares. This understanding of risk was reinforced by the definitions of risk² given to Excelsior managers during presentations made throughout the region, when the RBSIC was originally launched in 2002, when risk was generally explained as the possibility of a negative occurrence that could damage the business. Unsurprisingly given their negative perceptions of risk and based on the principle of *the greater the risk the greater the profit*, the importance of managing risk effectively and balancing risk and return was acknowledged by all of the managers. The General Manager of Excelsior's Chinese subsidiary emphasised the link between risk, and innovation and development, underlying the importance of these processes in the success of a business commenting: "*No risk – no innovation.*" In common with a number of managers the Excelsior General Manager for Risk said: "*Risk is only bad if you do not know you have got it.*" He went on to emphasise the importance of understanding the business's appetite for risk and acting accordingly. This was supported by the Singaporean management team, who probably had the most negative attitude to risk among all of the subsidiaries and joint ventures, with the General Manager describing risk as: "*the word is danger....but the bigger the risk the bigger the gain*" while at the same time acknowledging that well managed risks can be beneficial to the business.

² These are the same definitions that appear in the RBSIC User Guide.

The three British managers of Landmark's Taiwanese joint venture also viewed risk negatively while acknowledging that if the business was aware of its risks and managed them effectively this should lead to a greater understanding of the business's operating environment enabling it to function more effectively. In contrast the joint venture's Taiwanese Managing Director (Marco Polo) felt that in general Chinese people tended to ignore risk believing "*whatever happens is their 'destiny' and there is nothing that can be done about it*". While the Managing Director of Landmark's Hong Kong based joint venture who regarded risk as a negative, but one that could be managed, felt that many of the joint venture's Chinese employees did not understand the importance of risk and risk management and 'firm' leadership would need to be demonstrated by the joint venture's senior management if the importance of risk was to be appreciated throughout the company.

A negative view of risk may be a reflection of the cognitive component of a country's CIP that reflects the shared social knowledge that people hold regarding risk leading them to regard risk as negative and a threat to the business. Furthermore, a manager's negative perception of risk may be reinforced if he / she believes through the identification of a risk, that could prevent the business from achieving its objectives, they are revealing their personal inadequacies as managers and this may be regarded as an indicator of their inability to manage the parts of the business for which they have a responsibility implying they are 'not up to the job' expected of them. This may be supported by the normative component of a country's CIP where it is the norm in the recipient country to consider the practice of identifying risks as a search for events that will negatively impact the business and not to consider the identification of risk as a way to develop competitive advantage.

Having considered a number of possible influences on a manager's perception of risk, including national culture, the next section will discuss more fully the role of national culture in the development of the national context into which the RBSIC was transferred and how it relates directly to the practice.

7.2.0 National Culture

Earlier, it was argued that the degree of compatibility between the values implied by the RBSIC and the values underlying a recipient business unit's national culture would influence the degree of difficulty in institutionalising the RBSIC. The greater the incompatibility the more likely the transfer will not be institutionalised. This section will commence with a general discussion on national culture and the institutionalisation of the RBSIC before moving on to discuss two specific components of the RBSIC – ethics and whistle blowing – and how their institutionalisation may be influenced by the national culture of local business units.

7.2.1 The RBSIC and National Culture

The Excelsior General Manager for Risk expressed the view that a RBSIC was consistent with the Excelsior organisational culture but there was a possibility that it was not suited to all of the national cultures in the region where Excelsior had subsidiaries and joint ventures. (This fits with the initial presumption outlined in Chapter 1). He added that sensitivity to a subsidiary / joint venture's national culture was not necessary for the practice to be successfully institutionalised as Excelsior's strong organisational culture could overcome any resistance based on national cultural

differences. A similar view was also expressed by the Thai management team who described national culture as the biggest impediment to the institutionalisation of the RBSIC while believing this could be overcome because the Thai business was a subsidiary of a MNE and had never been Thai owned and in the words of the Senior Finance Director was “*not really a Thai business*”. This would increase the probability of the company adopting standardised practices representative of a ‘shared’ organisational culture as it would not be influenced by national culture to the same extent as a smaller, nationally based company. Thus, the RBSIC, which was imbued with the values of the UK based parent, would be more likely to be institutionalised.

The Excelsior Singapore and Malaysian management teams dismissed the need for cultural sensitivity describing the approach adopted by Excelsior as “*only a template that needed to be completed*”. Similar views were expressed by the Head of Group Audit at Peninsula who described the RBSIC used in Peninsula’s Asia-Pacific operations as an exact copy of the UK system. His immediate superior the Peninsula Finance Director added this was possible because the business was very simple and similar everywhere in the world. This approach to the RBSIC was to a degree contradicted by later comments. Managers in Singapore acknowledged that cultural attitudes to risk did affect the risk identification process and the Peninsula Head of Group Audit commented on the importance of ‘face’ issues when dealing with Japanese staff.

The management teams of Excelsior’s Australian and Hong Kong businesses both felt a RBSIC complemented their national culture. Although the Hong Kong based

managers did not share the view of the Finance Director of the Australian subsidiary who felt this was in part due to similarities in national cultures of the parent and recipient country. Both cases were similar to the extent that none of the managers saw the need for any other measures that would achieve harmonisation.

Only the Legal Manager of Excelsior's Japanese subsidiary, the Landmark Operations Manager in Taiwan, the Landmark Director of International Market Development and to a lesser extent the management team of Excelsior's Chinese subsidiary described national culture as playing an important role in the institutionalisation of the RBSIC in their respective countries. Among the Excelsior managers the Chinese management team expressed strong reservations about the appropriateness of a RBSIC to the national culture with the Finance Manager commenting: "*Chinese are less cautious about risks. This is especially the case if you work for a local company. Local companies lack sophistication and would not consider a system of risk management.*" He then went on to say that the company should not be over concerned about cultural differences as it was "*an MNE and it should have the same standards globally*". The inconsistency of these two statements is clear.

The British Operations Manager of Landmark's Taiwanese joint venture believed the local culture failed to understand the importance of risk management. This view was supported by the Landmark headquarters based Director of International Market Development who saw differences in national culture as a major impediment to the institutionalisation of a RBSIC in the company's Taiwan based joint venture. He commented that it was necessary for management to constantly reinforce the importance of such a system so that local employees could develop an appreciation of

its importance and value. A similar view was held by the Marketing Manager who felt the successful institutionalisation of a RBSIC could only be achieved through strong management leadership describing Taiwan as a country “*where what the boss says goes*”.

The Managing Director (Marco Polo) felt that despite Taiwan’s unique circumstances, stemming from its relationship with the PRC, that had led many Taiwanese to adopt a rather short term mentality, that a RBSIC could be successfully institutionalised if its value was clearly explained. This was supported by the Managing Director (Landmark) who was optimistic that cultural differences were not insurmountable as Taiwanese managers were keen to learn new ideas especially if they felt they could give them a competitive edge.

The senior management of both of the Landmark businesses shared the common belief that institutionalisation difficulties related to national culture could be overcome by strong leadership from the business’s managers, however, in both cases ‘strong leadership’ appeared to mean the use of managerial power to compel people to act in a certain way. Managers did not seem to consider the implications of dissatisfaction among employees who were being expected to undertake tasks that were not consistent with their personal values.

There was a disagreement about the importance of national culture and the institutionalisation of the RBSIC between the managers of Excelsior’s Japanese subsidiary. The British Managing Director felt a RBSIC was consistent with the assumptions and cultural values of Japan. This view was not shared by the Japanese

Finance Director and Legal Manager who said: “*The new generation of Japanese executives do share the values found in the guidelines. However, the traditional approach common in many Japanese companies would not fit with the guidelines as they lack the necessary transparency. It would be hard to accept. Companies would feel they were revealing their weaknesses.*”

The Legal Manager added that he believed that if the RBSIC was presented as part of the company’s corporate culture it was more likely to be institutionalised given the high respect for corporate culture normally demonstrated by Japanese people. He also thought the likelihood of institutionalisation would be improved if certain changes, principally in the approach to data gathering, could be made to the ‘one size fits all’ approach presently used.

Douglas and Wildavsky (1982) and Hofstede (1980) suggested that attitudes towards risks may be related to aspects of culture. The beliefs, values, social norms and assumptions that people hold toward the RBSIC are part of national culture which is reflected in the normative component of a country’s CIP. This is supported by Sitkin and Pablo, (1992: 21) who propose that through values and beliefs or its more directly observable manifestations (e.g. risk related rituals, stories, heroes), the cultural risk values of an organisation are determined.

The Uncertainty Avoidance dimension of Hofstede’s *Study of International Differences in Work-Related Values* (1980)³ offers a possible explanation for the belief held by a number of managers that the RBSIC was not a particularly good ‘fit’

³ See 3.6.1.4

with their respective national cultures. Among the recipient countries in this study Australia, China, Hong Kong, Malaysia and Singapore all scored low levels of uncertainty avoidance; only Japan was classified as having high uncertainty avoidance. In Japan the overall attitude towards risk was probably the most negative with one of the managers drawing a comparison with the need to manage risk and Japan's renowned emphasis on quality. However, despite this emphasis on managing risk the reaction of those interviewed showed they had great difficulty with the transparency component of the RBSIC and the requirement to openly acknowledge their business's risks to a large number of people inside the company. In this case the desire for an effective RBSIC may be overridden by other factors.

Although most local managers provided examples of how national culture had created some barriers to institutionalisation the majority played down the importance of the role of national culture in the institutionalisation of the RBSIC. This may be because data were only gathered from senior managers among whom the majority of informants were confident that the (headquarters mandated) organisational culture of their business unit was strong enough to overcome any difficulties in the institutionalisation of the RBSIC resulting from the incompatibility of their national cultures and the values of the RBSIC. Their belief in their company's organisational culture could be explained by a number of factors including agreement with the objectives of the business and the expectations that their company has of their own behaviour, a conviction that they are a valued part of the organisation and well rewarded for their efforts, and confidence in the judgement and ability of the company's senior management (This was particularly apparent from the comments of

the Excelsior General Manager for Risk). This may be a limitation of the research (see 12.7.0).

It is also possible that belief in the relative strength of the organisational culture is not shared by all of the business unit's employees. This is because the culture of an organisation is a reflection of the values of the company which are learnt at the workplace, and which may (or may not) be in line with the values of individual employees. National cultural values are arguably far more deeply embedded having been instilled and institutionalised since birth. Among the business's more junior employees, who are less likely to be committed to the business and its organisational culture than its managers⁴, there is a greater probability that the RBSIC will be inconsistent with the cognitive and normative structures through which they understand and interpret the practice if their national culture is inconsistent with the values underlying the RBSIC. This suggests that senior management's belief in the strength of their business unit's organisational culture may be overstated.

The next two sections will consider how two key components of the RBSIC – ethics and whistle blowing – are affected by the national culture of local business units.

⁴ Staff lower in the hierarchy are more likely to have spent less time working for the company, work less hours than senior managers and therefore have a lower level of exposure to the values underpinning its organisational culture. They are also a greater probability that they will have lower standards of education reducing the possibility that they will advance to management level and will not have made a similar level of personal investment in the company as is common with senior managers. In addition it is unlikely that they will be sharing in the success of the business to the same degree as that of senior managers (e.g. bonuses or stock options).

7.2.2 Ethics

An effective ethics policy is arguably a key component of a system of internal control which complies with the Turnbull guidelines. Companies exhibiting unethical behaviour, perceived or real, face an increasing financial and reputation risk that can lead to declining market share, lower profits and government regulation (Gagne, Gavin and Tully, 2005: 181) having an immediate effect on the financial position of a company and / or its reputation. Both can negatively affect the value of a shareholder's investment in a company in the worst instance completely eliminating it should a company be forced into bankruptcy.

Excelsior places a greater emphasis on its ethical and social responsibility policies than Landmark giving them a high profile in its communications with the public and shareholders. In its annual report it describes its ethical policy as a key element in its internal control system, implicitly acknowledging that failures in its policy would increase the risk profile of the company with potentially negative implications for shareholders. Landmark is increasing its commitment in this area including a corporate and social responsibility statement for the first time in its 2003 annual report while preparing to launch a corporate and social responsibility website in 2005 that will provide detailed information about the topic.

Company procedures require that all Excelsior employees are given two booklets upon joining the company that explain the company's purpose and values, its business principles and what they mean to everybody connected with the company. Senior managers are required to sign a document that acknowledges they have read the

booklets when they receive their annual performance review. Landmark staff are also made aware of the company's ethical policy when they join the company and this is reinforced through conferences, intranet technology, discussion groups, staff briefings and bulletins, and the quarterly staff magazine.

Although both Excelsior and Landmark have clearly articulated ethical and social responsibility policies the extent of the awareness of these policies among the employees of both companies differed considerably. Overall, these data show that, for different reasons, both companies' ethical policies have not been fully institutionalised.

The Excelsior General Manager for Risk was confident that *"the company's ethical values are high, clearly communicated and relevant to the operating environment."*

This view was supported by the Finance Director of Excelsior's Australian subsidiary, who in common with the General Manager for Risk, had seen both of the booklets explaining the company's ethical policy. In Excelsior's Thailand business both of the managers had seen the two booklets and were confident that everybody who worked in the subsidiary had also received them and understood their role and importance.

The Managing Director believed that the business's awareness of the importance of a good ethical policy was a legacy of the strong ethical stance taken by its previous owners.

The Finance Manager of Excelsior's Malaysian business also believed the company's ethical values were clearly communicated at the managerial level but went on to say that although they were relevant to senior employees, especially those in the Finance

function, they were not understood by lower level employees. One inconsistency was apparent when the Finance Manager said that he had no recollection of having seen the two booklets setting out the company's ethical standards but as was the case with all senior management he had signed the company code of conduct that required him to acknowledge that he had read both booklets.

Both of the managers of Excelsior's Chinese subsidiary had seen the two booklets.

The General Manager Finance considered them to be of less value than the Finance Manager commenting *"It is a mechanical practice that is just done and not internalised. There is not enough 'real' communication throughout the company."*

While the Finance Manager claimed that Excelsior's ethical values are *"very clearly communicated internally and to third-parties"*. However, he appeared to regard the company's ethical policy from a rather limited perspective principally forbidding the paying of bribes. A similar disagreement occurred between the two Excelsior managers in Hong Kong both had seen the two booklets but had a very different attitude to the importance of the company's ethical policy. The General Manager described it as the best he had experienced and relevant to Hong Kong while the Accountant admitted she was barely aware of its role in the organisation. The General Manager added that although the policy was regularly communicated he would like more 'people to people' explanation of the guidelines.

In Excelsior's Singaporean subsidiary the General Manager and Administration Manager had seen both of the booklets while the Finance Manager had not seen either booklet. The General Manager remarked that she had distributed the booklets throughout the business without any follow-up or instructions as to how they should

be presented to employees. She believes it is up to the General Manager to promote the company's ethical standards, but was not given any guidelines as to how this should be achieved.

Awareness of the company's ethical policies was lowest in Excelsior's Japanese subsidiary the Legal Manager, Finance Director and Operations Director all said they had not seen the two booklets and wondered if they were available in Japanese. The Legal Manager added that the definition of unethical behaviour would be very different in the Japanese context. He gave the example of how a successful Excelsior product was copied by a Korean company and then introduced into the Japanese market with an almost identical name and packaging. This blatant copying of an idea was not regarded as unethical.

Landmark had adopted a markedly different approach to developing an ethical policy in its Taiwanese joint venture. The Director of International Market Development explained that Landmark had concentrated on transferring those ethical values that it regards as 'reasonable' given the Taiwanese political, financial and cultural environment. Particular emphasis has been paid to the importance of health and safety in the workplace while responsibility to many other stakeholders e.g. those concerned with environmental issues had not yet been addressed. The Managing Director (Landmark) said that Landmark's ethical values had only been communicated at the top of the joint venture but went on to say that the joint venture has come up with its own ethical policy that he felt was reasonable and reflected 'Asian Values'. The Marketing Manager commented that local staff had no previous experience of an ethical values policy, which is a rarely discussed concept in

Taiwanese companies, and consequently found the idea hard to comprehend. The Managing Director (Marco Polo) expressed his concern that the institutionalisation of an ethical policy, that was part of a RBSIC, could damage morale as employees felt they were not seen as trustworthy.

At the newly established Landmark Hong Kong joint venture the Managing Director said that Landmark's ethical values will be introduced to the business but this will not be accomplished in the short term. However, the joint venture was operating an ethical sourcing policy to be used in all its dealings with suppliers who will be subjected to an ethical audit. The Quality Assurance Manager explained that presently Landmark does not visit suppliers in China and the audit process is undertaken by completing forms and sending samples. The joint venture will visit all of the plants of the suppliers it uses and will undertake a full quality, ethical and environmental audit.

The likelihood that an ethical policy will be institutionalised will be affected by both the cognitive and normative components of a country's CIP that represent employee's shared knowledge, and their beliefs, values, social norms and assumptions about ethical policies, respectively. The relevance of an ethics policy that originated from the UK and reflects the values of that country was questioned by a number of managers who felt that it might not be appropriate to their operating environment and / or understood by local employees where there was a considerable difference in what was regarded as ethical in the UK and the country where they were operating. Two of Hofstede's (1980, 2005) dimensions of culture⁵ suggest that the institutionalisation of

⁵ See 3.5.1.4

an ethics policy among the Asian countries included in this study will be difficult.

The *uncertainty avoidance* dimension suggests that countries with high uncertainty avoidance, only Japan in this research, will be more likely to welcome an ethical policy as the rules and procedures it brings to the governance of the organisation will create a structure that reduces the uncertainty regarding ethical dilemmas. While the *Individualism – Collectivism* dimension suggests that the collectivist nature of all of the countries, with the exception of the UK and Australia, may increase the likelihood of preferential treatment to group members at the expense of others even if this does not seem economically justified or by Western standards ‘ethical’. A relevant example would be the Chinese practice of *Guanxi*. It refers to an intricate, pervasive network of personal relations based on mutual obligation, through the exchange of favours (Deresky, 1997: 200), and is common in China and countries with a large ethnic Chinese population. Membership of a network is normally beneficial for its members but may not necessarily be so for the companies who employ them. It is particularly relevant to this research because ethnic Chinese play an important role in the business communities of a number of the countries represented in this study.⁶

Examples would include hiring procedures where preferences are frequently shown to family and friends, the awarding of contracts on a relationship basis and a lack of respect for the rights of workers who are not part of the group. All of which were listed among the reasons for the 1997 Asian economic crisis by the ADB (2000).

Landmark adopted a different approach to developing an ethical policy in its Taiwanese joint venture instead of transferring its entire policy from the UK to Taiwan it attempted to make its ethical policy more relevant in two ways. First, for

⁶ This would include China, Hong Kong, Taiwan, Singapore, Malaysia and Thailand

senior managers, it only transferred parts of its ethical policy that it thought were 'reasonable', meaning more likely to be accepted, given the political, financial and cultural environment in Taiwan. The decision on whether a policy was reasonable was taken by the Managing Director (Landmark) and his immediate superior the Director for International Market Development and appeared to be based on the their understanding of the operating environment in Taiwan. Second, for the remaining staff a series of workshops were organised where local employees decided on the content of an ethical policy which reflected local values, and agreed to its implementation, thereby, increasing the likelihood that it would be understood and internalised. This may make the policy easier to institutionalise but does leave open the possibility that it will lose some of its original intent and fail to achieve all of the objectives originally intended by the corporate ethical policy.

7.2.3 Whistle Blowing

If the RBSIC is to work effectively both companies will need to establish channels of communication for individuals to report suspected breaches of laws or regulations or other improprieties (Turnbull, Appendix: 3). This includes concerns over potential risks to the business's objectives that could be of an ethical or operational nature. They will also need to ensure that individuals feel able to report their concerns without fear that they will be discriminated against in the future. Excelsior has put in place such a mechanism throughout its Asia-Pacific operations while Landmark is in the process of implementing its own system.

Considerable differences existed throughout the region, at both the national and intra-office level, as to the likelihood of the successful institutionalisation of a whistle blowing policy⁷. Excelsior's Regional Finance Director said that throughout the region the reporting of breeches in the company's ethical values and business principles by staff at all levels is supported and encouraged. This was confirmed by the Excelsior General Manager for Risk who is the point of contact for anybody in the region who wishes to report their concerns regarding operational or ethical breaches and feel unable to discuss the matter with the local management or have done so but have not received a satisfactory response. He commented: "*Attempts are made to spread the message through the group.....all staff have a responsibility for the behaviour of the company.*" He was especially keen to provide examples of how successful the company's whistle blowing policy had been in Australia. This was supported by the Finance Director of Excelsior's Australian subsidiary who lauded Excelsior's Australian employee's record of speaking up when they had concerns. However, he noted that this varies from area to area, person to person.

The only other Excelsior subsidiary where all of the managers were confident that Excelsior's policy of encouraging whistle blowing was entirely appropriate was Singapore where managers believed the practice was facilitated, without individuals feeling unduly restrained or guilty, by the business's flat management structure.

⁷ Whistle blowing refers to a deliberate non-obligatory act of disclosure, which gets onto record and is made by a person who has or had privileged access to data or information of an organization, about operational or non-ethical breaches whether actual, suspected or anticipated which implicates and is under the control of that organization, to an external entity having potential to rectify the wrongdoing" (Based on Jubb, 1999, p. 83).

Differences of opinion existed in a number of Excelsior's businesses. In Japan the Legal Manager insisted that the attitude to whistle blowing is very positive, with employees protected by government regulations. This was in sharp contrast to the views of the British Managing Director who said he had never really thought about whistle blowing in Japan regarding it as something that would probably not happen due to the hierarchical nature of Japanese society. In China, once again the Finance Manager demonstrated a more positive attitude to the company's policies than the General Manager Finance, using an example to support his position, he explained that employees are encouraged to report their concerns and are very keen to do so confident that such behaviour will not result in punitive action being taken against them if the allegation is proved to be incorrect. However, he did acknowledge this may not be the case with factory workers. Taking the opposite view the General Manager Finance believed that whistle blowing is unlikely "*as an employee would not want to break the harmony in the company.*" In Thailand, the Managing Director believed the company's whistle blowing policy was suitable for the top three tiers of management, however, below this level the educational standard of employees, their general behaviour and culture makes it unlikely that they would be prepared to "*blow the whistle*". The Senior Finance Director demonstrated greater confidence in the practice saying that he felt whistle blowing was unlikely in a local company but more likely in an MNE such as Excelsior where efforts are made to get all of the employees to take responsibility and feel able to report matters of concern.

The remaining Excelsior subsidiaries and joint venture and the two Landmark joint ventures all believed that the successful institutionalisation of a whistle blowing policy would be difficult. Both managers of Excelsior's Hong Kong joint venture

felt, that despite moves to encourage whistle blowing, it was unlikely because of the mindset generated by the national culture; however, they did believe this could be overridden if the organisational culture is appropriate. The Finance Manager at Excelsior's Malaysian subsidiary said that the company's policy of encouraging whistle blowers was likely to be effective in the Finance Team while lower down the company hierarchy it is less likely that employees would be willing to report their concerns because they are "*more afraid of losing their rice bowls or just can't be bothered seeing the problem as being outside the scope of their responsibilities*". The three British managers at Landmark's Taiwanese joint venture were of the opinion that the concept of whistle blowing was unsuited to the Taiwanese business environment regarding it as "*completely alien to the Taiwanese and highly unlikely to happen*". The Operations Manager commented that staff generally considered reporting risks only if they were "*very important and affected them directly*" adding "*....the issue is always looked at as how it affects the member of staff not the company*". This was supported by the Managing Director (Marco Polo) who said that "*Taiwanese tend to think primarily of protecting their own risk.*" While the Managing Director of Landmark's Hong Kong joint venture commented that the likelihood of Landmark's whistle blowing policy being accepted and understood by local employees was remote. He described the locals as too relaxed and unlikely to speak up because it is a new company and they are frightened of losing their job. He added that all issues regarding ethics would "*need strong expatriate leadership*".

The likelihood of the success of a whistle blowing policy will be related to the normative component of a country's CIP. This refers to the beliefs, values, social norms and assumptions of the employees of the subsidiary or joint venture, with

regard to the concept of whistle blowing, which are reflected in their national culture, and to the cognitive component through which employee's attitudes to whistle blowing are formed.

Differences in national culture can be considered to explain why the majority of the managers, with the exception of those in Australia and Singapore, felt a whistle blowing policy, which is enshrined largely in Western values and is a reflection of the national culture of the UK, would be unlikely to be institutionalised in their business. Four of Hofstede's (1980, 2005) dimensions of culture⁸ can be used to consider why this may be the case⁹. First, the *uncertainty avoidance* dimension suggests that countries with high uncertainty avoidance, only Japan in this study, will be more likely to perceive an impropriety (ethical or operational) as severe since established rules would be violated (Tavakoli et al, 2003: 56) and would be more likely to blow the whistle. Second the *individualism – collectivism* dimension suggests that in collectivist countries loyalty to the group may reduce the likelihood of an employee becoming a whistle blower, possibly bringing 'shame' on the group in turn leading to the individuals' expulsion. Tavakoli et al. (2003: 56) adopt a contrary position suggesting that employees in collectivist countries are more likely to become whistle blowers because by alerting the relevant authorities to a situation they perceive requiring action they are looking out for the larger group. However, the data gathered in this research suggests that whistle blowing would be perceived as disturbing the

⁸ See 3.6.1.4

⁹ Hofstede's fourth dimension *Masculinity – Femininity* would suggest that in feminine cultures employees would be less willing confront conflict situations and thus be less willing to blow the whistle (Tavakoli et al, 2003: 56). Among the countries in this study the UK, Australia, Japan, China and Hong Kong have a high masculinity index. Malaysia, Singapore and Taiwan were middle ranked and Thailand was the only country ranked as a feminine country. This research found little correlation between the masculinity – femininity ranking of the countries in the study and the likelihood of employees becoming whistle blowers.

harmony of the group where *'the personal relationship prevails over the task'* (Hofstede, 2005: 103). The third dimension *Power Distance* suggests employees in high Power distance countries, all of the countries in this research except the UK and Australia, are less likely to feel comfortable approaching and/or contradicting their managers than would nationals from low power distance cultures. This implies that Australians would be more likely to alert senior managers to a situation that they perceive as requiring action increasing the probability of the successful institutionalisation of a whistle blowing policy in their business unit. This is supported by Hofstede's *Long-Term Orientation versus Short-Term Orientation* dimension that suggests all of the countries¹⁰, except Australia, emphasis social harmony and a stable hierarchy making employees less likely to challenge their managers.

The situation at Excelsior's Singaporean subsidiary was very different. Hofstede suggests that Singaporean work-related values would not be supportive of whistle blowing, however, in this case specific factors may increase the probability of its institutionalisation - the small size of the office, its flat management structure, the ease of informal communication and length of time the management team had worked together which was far longer than any other group included in this research. On a negative note the 'tight knit' nature of the team, although increasing the likelihood that concerns will be reported to the General Manager, may reduce the likelihood of concerns being raised with management outside of the business unit.

¹⁰ Malaysia was not included in the study.

Managers in China, Thailand and Malaysia commented that whistle blowing is less likely to be institutionalised at the lower levels of the organisation. This may be due to a combination of culture traits and the level of education which is generally lower than it is in the other countries in this study. Low levels of education may make it more difficult for employees to comprehend a practice that is not consistent with their own cultural values.

The view expressed by the Legal Manager of Excelsior's Japanese subsidiary, that whistle blowing was more likely to be institutionalised because whistle blowers were protected by government legislation, provides an interesting example of how through the introduction of a regulatory framework an attempt can be made to introduce organisational values, that although in conflict with national culture, are expected to influence the behaviour of employees in a desired fashion. Of note in this case is the opinion of an 'outsider' - the British Managing Director - that the objectives of the legislation are unlikely to be achieved because the values underlying Japan's national culture are too strong.

The two previous sub-sections have considered how the cognitive and normative components of a country's CIP, that are conceptually close to culture (Kostova, 1999: 314), influence the national context into which the RBSIC is being transferred. The next section will consider how the third component of the CIP – regulatory – influences the national context.

7.3.0 Regulatory Environment

This section will discuss the differences in local corporate governance practices between the source of the RBSIC (UK) and the recipient business units. The regulatory institutions of a country's CIP are reflected in its local corporate governance regulations. If the RBSIC is perceived by employees at local business units to be in conflict with their national corporate governance regulations it will increase the institutional distance between parent and host making the transfer of the practice more difficult.

Corporate governance in the Asia-Pacific region has received much attention in recent years partly due to the 1997 economic crisis in Asia (Claessens and Fan, 2002: 71) when failures in corporate governance were identified as one of the main factors behind the crisis by the ADB (2000). Since the crisis new corporate governance regulations¹¹ have been introduced throughout the region. However, in all cases, with the exception of Australia, the standard¹² remains well below that of the UK.

Inside the region national corporate governance standards were found to differ substantially with Australia closest to those found in the UK followed by Singapore and Hong Kong. While acknowledging the weaknesses of local corporate governance, opinions often differed between managers in the same office, as to the actual standard. Many of the managers interviewed acknowledged that corporate

¹¹ These include stronger regulatory structures, changes in foreign ownership rules, improved minority shareholder rights, improved transparency, the introduction of more independent directors and an improved market for corporate control.

¹² Examples include ineffective boards, weak internal controls, lack of adequate disclosure, low levels of transparency leading to agency problems, lack of protection for minority investors and legal and regulatory frameworks characterised by poor compliance and enforcement (see Chapter 2).

governance was becoming more important in the country where they were working; however, this had not necessarily led to any meaningful improvement, although a number of managers felt that it would eventually. All of the managers, except the Accountant of Excelsior's Hong Kong joint venture, who described them as '*different*' (and therefore not necessarily of a higher level) to local standards, were confident that the level of corporate governance in their business unit was higher than the norm in that country.

Excelsior's Australian managers regarded their corporate governance standards to be very similar to those of the UK with a strong emphasis on internal controls. In Hong Kong Excelsior's General Manager and the Accountant differed in their opinions. The General Manager felt the standards were similar; a legacy of British rule, while the Accountant disagreed believing locally there was less of an appreciation of the importance of corporate governance. The Managing Director of Landmark's Hong Kong based joint venture also regarded the corporate governance environment as similar to the UK adding that was the principal reason for headquartering what is primarily a Chinese business in Hong Kong.

In Singapore all three managers felt the Singapore corporate governance system was similar to the UK. This was seen as both a legacy of Singapore's colonial experience and Singapore's belief in strong regulation. However, there was a disagreement whether the subsidiary's corporate governance standards were typical of local companies. The General Manager thought they were very close whereas the other two managers felt they were typical of an MNE but were very different to small and

medium size Singaporean companies with whom they shared a number of similarities including turnover and employee numbers.

Both the Finance Manager and the Senior Finance Director of Excelsior's Malaysian and Thai subsidiaries respectively acknowledged the increased importance of corporate governance in their countries with the Finance Manager of the Malaysian subsidiary noting: *"There is a growing level of awareness of corporate governance and internal control in Malaysia. Even the local share market is pushing the importance of corporate governance."* They also stated that standards were considerably behind those of the UK. This was supported by the Managing Director of Excelsior's Thai operations who described Thai corporate governance as *'very basic'*. He was of the opinion that although problems had been identified and discussed in detail very little action had been taken to correct deficiencies in the local regulations. He believed this was because the majority of Thai companies placed greater emphasis on the short term cost advantages that could be achieved by choosing not to adopt comprehensive corporate governance practices ignoring the long term advantages offered by such procedures. The Senior Finance Director felt that standards were higher in Thailand than the Managing Director believed them to be while acknowledging they still had a long way to go.

In China, Excelsior's two managers acknowledged that with the exception of other MNEs operating in the country corporate governance standards were very low and corruption was widespread. The General Manager Finance questioned Excelsior's approach to corporate governance in China which he felt made too many assumptions and lacked the required understanding of the complexities of the operating

environment. He also added that he did not feel corporate governance issues were a priority to the company.

In Japan Excelsior's Legal Manager felt the degree of transparency required for a RBSIC was inconsistent with the Japanese corporate governance environment which was characterised by "*poor disclosure and a lack of regulations that force companies to reveal information*". He felt this was due in part to the close relationship between business and government which reduces the pressure on companies to adopt high levels of corporate governance and the associated levels of transparency. However, he did feel that the situation was changing, especially with regard to younger managers, and that in time the general standards of corporate governance would move towards those of Excelsior.

The three British managers of Landmark's Taiwanese joint venture were adamant that the standard of corporate governance in Taiwan was far below that of the UK and was likely to remain so for the foreseeable future. The Managing Director (Landmark) commented: "*It is years behind*"

These data show that the majority of managers (ex-Australia) believe that local corporate governance standards are, to varying degrees, below those found in the UK. If corporate governance codes and regulations are to be effective, a country needs the capacity to inspect companies to ensure they are conforming to them, and, as necessary, be able to invoke sanctions – rewards or punishments – in an attempt to influence a company's future behaviour. This, with the exception of Australia, is not yet the case in the Asia-Pacific countries included in this study. In addition

employees need to be made aware of relevant regulations and codes. A failure to achieve this may explain why even in the same business unit employee's understanding of corporate governance can differ considerably.

The past two to three years have seen a steady growth in new or amended rules around the Asia-Pacific region both in areas such as accounting and auditing standards, and in corporate governance regulations more generally. This is in part a response to new regulations in the United States¹³ and a reflection that a large amount of rule changes still need to be done in each country. Recent reforms in many Asian countries have improved non-financial disclosure. For example, certain jurisdictions now require disclosure of corporate-governance structures and practices, and directors' remuneration. The stock exchanges in some Asian markets, such as China, Hong Kong, Malaysia, Singapore and Taiwan require disclosure of deviations from a code of conduct (OECD, 2003: 38). However, in general, when comparing the rules that have and have not changed, it becomes apparent that regulators and governments are far more comfortable about demanding high standards of accounting, auditing and financial reporting than they are about asking companies to build strong internal controls and accountability structures (CLSA, 2004: 5). The overall impression is that large numbers of new rules have been promulgated in recent years without sufficient thought as to whether they will, in practice, contribute to real improvements in corporate transparency and accountability over time (CLSA, 2004: 4).

Given that all of the countries in this study now have a substantial body of corporate governance rules and regulations, albeit of varying quality and with different levels of

¹³ Primarily the Sarbanes-Oxley Act of 2002 that changed corporate governance, including the responsibilities of directors and officers, the regulation of accounting firms that audit public companies, corporate reporting, and enforcement in United States listed companies (Lander, 2004: 1)

awareness, the emphasis should now move to enforcement (CLSA, 2004: 4). Roche (2005: 38) states that corporate governance in much of the region (excluding Australia) is more a matter of form over substance, with enforcement of legislation raising doubts as to how serious local governments really are about raising governance standards. Enforcement has been made difficult by strong vested interests trying to impede further corporate governance reform in every market (excluding Australia) and a lack of institutional mechanisms designed to encourage compliance. Only in Japan and Australia have institutional investors formed private corporate governance activist groups. Although, some retail investors groups have been formed to promote corporate governance in Singapore and to some extent in Malaysia and professional associations are seen promoting corporate governance training and awareness in all of the markets, if somewhat less so in China (CLSA, 2004: 13). The institutionalisation of codes and regulations are further hampered by the belief of many managers that corporate governance is a compliance issue and not in the best interests of the company.

With the exception of Australia the national contexts of the recipient countries in this study are characterized by a general lack of awareness of corporate governance codes and regulations, and poor compliance with new and existing codes and regulations. There is also, once again with the exception of Australia, a lack of support for strong corporate governance from both the national government and local companies who do not appreciate the potential benefits of good corporate governance regarding it as a costly compliance issue rather than a source of value. Given this environment Excelsior and Landmark are likely to find understanding of the importance of corporate governance among the majority of their local employees to be generally

low. Its significance is likely to be further diminished if employees do not expect regulations to be enforced. Furthermore the absence of codes and regulations promoting internal controls and risk management (the exception being Australia), similar to the Turnbull Guidelines in the UK, suggest that in most cases Excelsior and Landmark will find institutionalising the RBSIC to be more difficult than it was when introduced in the UK (a country with many years experience of strong corporate governance regulation).

7.4.0 Conclusion

The most favourable environment for the transfer of the RBSIC appeared to be Australia where the differences in the cognitive, normative and regulative components of the CIP compared to the UK were less than any of the other countries in this research. The findings suggested by the data regarding the similarity of the underlying cultural values of the UK and Australia are supported by Hofstede's (1980; 1988) dimensions of culture that show the overall cultural values in Australia to be closer to the UK than any other country (see Appendix A1). This was most apparent when comparing *Power Difference and Individualism / Collectivism* where the scores were almost identical. This, in part, could explain the willingness of the Australian subsidiary to adopt Excelsior's ethics and whistle blowing policies. The corporate governance regulatory environment was also very similar with Australia the only country to provide detailed guidance on the implementation of a risk management process.

In the remaining subsidiaries and joint ventures the cognitive, normative and regulatory components of institutional distance, although varying considerably, differed to a much greater degree, with the People's Republic of China and Taiwan appearing to offer the least favourable environment for the transfer of the RBSIC.

This chapter has discussed the influence of national context on the institutionalisation of the RBSIC. National context is one of the contexts within which the transfer occurs. Inside the national context there is an organisational context at the individual business unit that will also influence the degree of institutionalisation of the RBSIC and this will be discussed in the next chapter.

ORGANISATIONAL CONTEXT

8.0.0 Introduction

This chapter will consider the role of organisational context in the transfer and institutionalisation of the RBSIC. Organisational context refers to the role of organisational factors in the institutionalisation of the practice. Even if the national context is supportive of the RBSIC the organisational context may not be favourable. This can lead to difficulties in transferring the RBSIC.

This research identified two sub-factors as having an important role in shaping the organisational context within which the transfer occurs. Each one is considered in a separate section in this chapter: The first – *support for new practices* – discusses the general level of support for new practices at recipient business units; and the second – *organisational differences* – considers managers perceptions on the availability of resources to institutionalise the RBSIC at their business unit, the level of intra-business unit communication and other organisational differences that are relevant to the institutionalisation of the RBSIC in individual business units.

8.1.0 Support for New Practices

The degree to which a business unit is supportive of new practices will be positively related to its ability to institutionalise the RBSIC. This sub-section discusses the general level of support for learning, change and innovation at individual business units.

This data has revealed that three quarters of the managers believed their business unit was supportive of learning, change and innovation although the reasons for this differed considerably and were often related to unique circumstances. Only two managers – the General Manager of Excelsior’s Chinese subsidiary and the Managing Director of Excelsior’s Thai subsidiary – felt their business unit was unsupportive. In both cases the other manager in the same business adopted a more positive attitude.

The number of new initiatives that managers had been asked to implement differed considerably with the largest number identified at the regional headquarters level and among those business units that had been entirely or partly acquired the previous year. Only the Excelsior Regional Finance Director felt that the region was suffering from an ‘initiatives overload’ and none of the managers suggested that the number of initiatives they had been required to implement would negatively affect their attitude towards the RBSIC.

While acknowledging that their business unit’s were generally supportive of the introduction of new practices managers in Australia and China did qualify their remarks, acknowledging that directives from headquarters depended to a certain

degree on the level of local management support that may not always be given enthusiastically. In addition the managers at Excelsior's Singaporean subsidiary were concerned about lack of appropriate resources to effectively operate any new practices introduced to the business.

In general the existence of the not-invented-here syndrome (NIH) defined by Katz and Allen (1982: 7) as *'the tendency of a project group of stable composition to believe it possesses a monopoly of knowledge in its field, which leads it to reject new ideas from outsiders to the detriment of its performance'*, which may also be applied to individuals, did not appear to be particularly prevalent with only the Excelsior General Manager for Risk commenting on different attitudes to adopting new practices if they were driven from outside the business.

Having considered the general level of support for new business practices the following sub-section considers specific differences between individual organisations that will impact on the institutionalisation of the RBSIC in individual business units.

8.2.0 Organisational Differences

A number of organisational differences that will impact upon the institutionalisation of the RBSIC were identified. This section will begin with a discussion on the availability of sufficient resources and the level of intra-business unit communication before going on to look at other important organisational differences that will have an influence on the institutionalisation of the practice.

8.2.1 Resources

The institutionalisation of the RBSIC will require the expenditure of sufficient resources by the respective business unit. Despite assurance by senior Excelsior corporate headquarters managers¹ that all of the businesses had sufficient resources to institutionalise the RBSIC if they were prepared to make enough effort. Opinions differed among Excelsior managers² regarding the availability of adequate resources in their business unit to institutionalise the practice. Both the General Manager for Risk and the Regional Finance Director believed sufficient resources had been dedicated to the transfer of the practice with the General Manager for Risk emphasising that the Business Continuity Manager had been employed specifically to work on the RBSIC; however the Regional Finance Director did add that “.....*more resources would be necessary to get buy-in to the practice.*” Regarding Excelsior’s Australian subsidiary the Finance Director disagreed commenting that in his opinion the RBSIC was under resourced.

Similar views were held by the Legal Manager of Excelsior’s Japanese subsidiary, General Manager Finance of Excelsior’s Chinese Subsidiary and the managers of Excelsior’s Singaporean subsidiary. In Japan the Legal Manager said that “*no extra staff have been hired yet and a request to do so would not be looked upon favourably.*” The same views were expressed in Singapore where the General Manager said the business was overstretched with “*too many practices and not enough people*”. She was supported by the Finance and Administration Managers who added that it was ‘fortunate’ that the RBSIC was only an annual process. The

¹ The Director of Group Risk and Head of Group Audit

² Data was limited to Excelsior informants as the RBSIC had not been implemented in the two Landmark business units.

General Manager Finance of Excelsior's Chinese Subsidiary was particularly concerned about the scarcity of knowledge resources commenting: "*....the business lacks the time and the knowledge of how to identify risks.*"

All of the managers in Excelsior's Hong Kong joint venture and its Thai subsidiary, and the Finance Manager of its Malaysian subsidiary were confident that for the immediate future they had sufficient resources to implement the RBSIC. However, the General Manager of the Hong Kong joint venture commented: "*We probably should spend more time on the practice*" and the Finance Manager of the Malaysian subsidiary expressed an opinion that suggested a lack of understanding of the practice and the resources required saying: "*Resources should not be an issue. It is more about the ideas of the senior management team; it is not really an administrative task.*" The two Thai managers may have been more inclined to ensure that resources were made available for the RBSIC based on their previous experience when they worked for the subsidiary of a United States MNE, acquired by Excelsior in 2002, where managers in general placed a greater emphasis on non-financial controls.

A lack of resources dedicated to the RBSIC could have a number of negative implications for the practice specific absorptive capacity of a business unit. A business unit may be unable to develop the technical core required to institutionalise the RBSIC because it is unable to adequately train its employees. A lack of resources means that managers will not have the time to undertake the RBSIC properly possibly leading to ceremonial adoption of the practice and the provision of insufficient and possibly inaccurate data for the RBSIC database. Furthermore, employees may regard the lack of resources provided as an indication that the task is not seen as a

priority by headquarters and / or that the institutionalisation of the RBSIC will require resources that were intended for other projects regarded as more important by the local managers reducing their motivation to institutionalise the practice.

8.2.2 Intra-Business Unit Communication

The absorptive capacity of an organisation does not simply depend on the organisation's direct interface with the external environment it also depends on transfers of knowledge across and within subunits that may be quite removed from the original point of entry (Cohen and Levinthal, 1990: 131). Intra-business unit communication can play an important role in facilitating this transfer through the provision of a medium for the explanation of the practice at the recipient business unit. This is particularly important regarding the RBSIC a practice that contains many features that need to be carefully communicated to local employees who in nearly all cases lack experience of similar practices.

Intra-business unit communication, although differing considerably among business units, was generally regarded positively and seen as improving, adding to the absorptive capacity of the individual business unit and, thereby, increasing the likelihood of the successful institutionalisation of the RBSIC.

Intra-business unit communications plays a key role in the successful institutionalisation of change programmes³ (Murdoch, 1997; Daly et al., 2003: 161).

One manager interviewed by Daly et al (2003: 160) described the connection simply

³ The comparison with change programmes is appropriate as the transfer of an organisational practice is frequently the catalyst for organisational change.

as “*you can’t have one without the other.*”⁴ With the exception of notices posted throughout their respective buildings intra-business unit communication in the Excelsior and Landmark business units was to a large extent contingent on the nature of the business unit. Intra-business unit communication in joint ventures was generally more complex than in wholly owned subsidiaries. Difficulties can develop when employees seconded from partners with different organisational cultures and objectives are expected to communicate with each other. Such difficulties were faced by Excelsior in its Hong Kong joint venture. Its partner was a family controlled Hong Kong based company where decision making was more centralised and information less likely to be shared. To improve information flow and develop trust between both parties weekly meetings (lunch followed by business) were introduced improving the relationship and communication between the two parties. Landmark’s Taiwanese joint venture also found cultural differences between employees difficult to overcome with Taiwanese employees less likely to voice an opinion. However, through the adoption of a flat management structure, and the patient building of individual relationships and levels of trust, Taiwanese employees at the management level became more forthcoming with their opinions.

Language difficulties were also identified as a barrier to internal communication not only in joint ventures but also in offices where information was sometimes not translated into the local language (see page 236). In addition problems could also occur when senior managers responsible for transmitting information inside a business unit have difficulty speaking the local language fluently. It was inferred that this, on occasions, may have been the case at Excelsior’s Japanese subsidiary and

⁴ Taken from semi-structured interviews with senior executives at 10 of Northern Islands top 20 companies (as compiled by the *Belfast Telegraph* and published on 23 February, 2000).

Landmark's Taiwanese joint venture, however, in both business units there was a general view among managers that overall intra-business unit communication was good.

Approaches to intra-business unit communication were influenced by the number of employees and geographical dispersion of a business. The smaller the size of the business the easier it was for personnel to communicate both formally and informally. Communication with a large number of employees, especially when separated by large distances e.g. Excelsior's Chinese and Australian subsidiaries, was normally through more formal methods of communication including periodic bulletins and large meetings. In addition greater management effort was required to gather information from the workforce. An example of this would be the quarterly downtime meetings at Excelsior's Chinese subsidiary where large numbers of staff could meet and discuss recent developments and matters of concern. Businesses with a small number of employees were able to develop less formal modes of intra-business unit communication as was the case at Excelsior's Singaporean subsidiary where all of the employees⁵ worked in the same building and managers operated an 'open-door' policy.

8.2.3 Other Organisational Differences

A number of other organisational differences, other than resource availability and intra-business unit communication, relevant to the institutionalisation of the RBSIC were identified.

⁵ Normally around thirty.

The business units in this study differed considerably in terms of the size of the business, their complexity (number of roles undertaken), power of individual managers, available resources (financial and technical), number and type of employees (administrative, production, education levels, length of time with the business unit, etc.), the length of time the business unit had been part of the parent group, experience of change and the relative importance of institutionalising new headquarters mandated initiatives.

Returning to the three components of absorptive capacity described by Kedia and Bhagat (1988: 567 – 568), all of the managers saw their businesses as part of a MNE, accepting that although they had considerable operational control over the business, its overall priorities and strategy, were determined by corporate headquarters. This tended to make them more cosmopolitan in their orientation, adopting a more systematic and routine approach to the management of their business, willing to follow organisational practices mandated by their corporate headquarters. The existence of a sophisticated technical core, that in some business units including Landmark's Taiwanese joint venture benefited from having managers who had been trained overseas, varied considerably influenced by the number of employees in a business unit, their educational standards and previous experience (see below). This meant in some business units even when they were supportive of new practices the sophisticated technical core necessary for the institutionalisation of a specific practice (e.g. the RBSIC) was not present. The General Manager of Excelsior's Singapore subsidiary, the smallest business unit in the study, acknowledged this was a potential problem adding that it could be rectified through appropriate training. Finally, strategic management differences between the recipient unit and the source differed

considerably not only in terms of available management skills but also in the prioritisation of tasks and objectives and the general level of support given to learning, change and innovation by local management. This was particularly apparent at the business units recently acquired by Excelsior, who had been asked to adopt a number of new practices, and at the newly established Landmark joint ventures.

The length of time the business unit or its employees had been part of the parent company was cited by Excelsior managers in Japan, Hong Kong, Thailand and Singapore as an important factor in the business unit's willingness to learn new practices. In Japan, the Excelsior Legal Manager, believed the "*strong desire in the company to learn from both internal and external sources*" was due in part to the recent acquisition of a larger business that was required to adopt Excelsior's organisational practices. A similar view was expressed by all of the Landmark managers interviewed including the corporate headquarters based Landmark Director of International Market Development who said that in both recently formed joint ventures: "*There is a genuine understanding of the importance of most of the knowledge that is transferred from the UK.*" While agreeing with the other Landmark managers the Managing Director of the Hong Kong joint venture was concerned that lack of critical discussion by local staff, regarding the adoption of new practices transferred from corporate headquarters could prevent them from developing a full appreciation of the value of these practices.

This data suggests that a newly acquired business unit is more likely to be prepared to learn new practices, such as the RBSIC, if there is a requirement to bring them in line with rest of the company. Also at the individual level employees who have not been

with the company for very long are less likely to be committed to specific practices and will have a more flexible approach to new ideas especially if their value can be demonstrated.

Data gathered from the Thai and Japanese business units suggested there was a negative relationship between the length of time that a business unit (or a substantial part of it) had been part of the overall MNE and the number of new initiatives it was asked to undertake. This was mainly due to the introduction of new practices designed to bring the business unit into line with the rest of the company.

This study includes three joint ventures (Excelsior – Hong Kong, Landmark – Taiwan and Hong Kong) all of which have been created to benefit from the knowledge of their owners. The data suggests that joint ventures, in most cases, will not have had the opportunity to develop their own practices and are more likely to adopt those transferred from their two parents.

Some business units, as a result of the substantial degree of change they had gone through recently, also appeared to have developed a culture that was supportive of change. E.g. Excelsior's Malaysian subsidiary that had had six Managing Directors in the previous ten years and regarded continuous, often radical, change as the norm.

The size of the business was cited by the General Manager of Excelsior's Singapore subsidiary as the reason why they had to be prepared to adopt ideas from other parts of the company as they lacked the resources to develop new products themselves.

The Finance Director of Excelsior's Australian subsidiary, by far the largest business

unit in this study, had a more negative attitude to adopting new practices and procedures than most of the other managers stating that they had to prove their relevance to the organisation adding “*We tend to devise our own practices.*” This could also be a reflection of the size of the organisation; in this case the company was large enough to believe that it did not need ideas developed outside of the business, unless they could clearly demonstrate their value, thereby justifying the large scale upheaval that could result from the introduction of a new practice throughout the organisation.

8.3.0 Conclusion

Overall, the data suggests that at a general level the organisational context at the majority of business units is supportive of new practices, although there are considerable differences among individual business units.

Intra-business unit communication was seen positively and improving by most managers increasing a business units’ ability to implement and internalise the RBSIC, however, a number of other organisational differences make the successful transfer of the RBSIC less likely. Differences of opinions existed with regard to the availability of sufficient resources to institutionalise the practice at individual business units with the majority of managers questioning whether they had sufficient resources to undertake the process. Furthermore, the existence of a sophisticated technical core necessary for the institutionalisation of the RBSIC was absent from a number of the smaller business units and differences were also apparent in the prioritisation of tasks.

Having considered the two contexts within which the transfer of the RBSIC has occurred the next three chapters, beginning with individual business units understanding of the RBSIC, will consider the characteristics of the transfer process itself.

CHAPTER 9

THE PRACTICE

(RBSIC)

9.0.0 Introduction

Having considered the role of the contexts within which the transfer of the RBSIC takes place the following three chapters discuss the characteristics of the transfer process itself beginning with the practice (RBSIC). Even if the national and corporate contexts are supportive of the transfer, should managers lack an understanding of the practice, and have insufficient related knowledge, the RBSIC is unlikely to be institutionalised.

This research identified two sub-factors as having an important role in local business units understanding of the RBSIC. Each one is considered in a separate section in this chapter: The first – *awareness of the purpose of the RBSIC* discusses business unit manager's understanding of the RBSIC, differences in their levels of knowledge and the flow of information about the practice from the source; and the second – *related knowledge* – discusses the levels of pre-existing knowledge at business units related to the RBSIC, including the ability to identify risk, and the degree of training individual managers feel they require to maximise the benefits that can be gained through the institutionalisation of the practice.

9.1.0 Awareness of the Purpose of the RBSIC

Opinions differed as to whether business units had been given a sufficient explanation of the reasons for RBSIC. Among those managers who said they knew the reason for the practice a number of suggestions, sometimes conflicting, were put forward. Only the Managing Director of the Japanese subsidiary believed the corporate governance reason for the RBSIC had been explained.

Differences of opinion existed at Excelsior's Regional Headquarters where the Group Manager for Risk was confident that enough had been done throughout the region to explain the reasons for, and the operation of, the RBSIC. While the Regional Finance Director thought more explanation was needed of the reasons for the practice.

Opinions also differed in Excelsior's Japanese subsidiary where the Legal Manager admitted that he had difficulty understanding the reasons for the RBSIC and what was expected of him while the Managing Director who had a more positive attitude towards the introduction of the RBSIC commented that although the *"....corporate governance angle of the RBSIC had been clearly explained"* the work he had been required to undertake to meet the Sarbanes-Oxley¹ requirements appeared to be given a higher priority than the RBSIC and it was *"....much clearer in defining what risk was making it easier to produce the necessary data."* He suggested this was probably because it was a legal requirement for a company listed in the United States whereas the Turnbull guidelines were not legally enforceable recommendations. The subsidiary's Finance and Operations Directors, while believing they understood what

¹ Section 404 of Sarbanes-Oxley Act, requires that companies with a stock market listing in the United States, in their annual reports, assess the controls they have in place to prevent accounting mistakes or fraud and have their external auditor attest to those controls.

the RBSIC was trying to achieve, insisted that the reasons for the practice has never been fully explained.

The Finance Director of Excelsior's Australian subsidiary clearly expressed his dissatisfaction with the explanation that he had been given for the RBSIC saying:

"The reasons for the RBSIC are not available or understood by people in the business." Similar views were articulated by the General Manager of the Excelsior Hong Kong joint venture who said there was a need for further detailed information that is more practical and less conceptual. The joint venture's Accountant was more confident describing the purpose of the practice as risk identification and mitigation.

In China the Excelsior Finance Manager was clear on the reasons for the RBSIC – *"to identify risk and mitigate it"*. While the General Manager Finance admitted he had not yet become directly involved with the practice and was uncertain of all of its objectives.

The Finance Manager of the company's Malaysian subsidiary was very confident that he understood the reasons for the RBSIC describing it as a compliance exercise that was a mechanical practice to be undertaken annually. The two managers in Thailand were also in no doubt that they understood the reasons for the RBSIC. The Managing Director said *"It is the management team's job to identify risks and take action."*

While the Senior Finance Director said it was part of *"protecting shareholder's interests"*. When asked further about this statement he admitted that he did not know that it was a main principle of the UK Combined Code on Corporate Governance.

The Singapore management team, while admitting that it had never been formally explained to them, claimed to understand the reasons for the RBSIC.

Although a number of managers claimed to know the reason for the RBSIC, only two felt that it had been properly explained, and one of these was the General Manager for Risk who had the responsibility for explaining the practice throughout the region. His optimism may have been influenced by his closeness to the practice and an understandable wish not to be quoted admitting to a lack of understanding of a practice he was responsible for introducing throughout the region. The other manager was the Managing Director of the Japanese subsidiary who when interviewed consistently demonstrated a better understanding of the RBSIC and the issues related to it than any of the other managers. This would appear to be because he had made a greater effort to learn about the practice than his colleagues.

The lack of consistency in the reasons for the RBSIC suggested by managers, not only between business units but often in the same business unit, indicates that the original explanation for the practice was insufficient². This view was supported by the comments of a number of managers who while acknowledging the value of the practice wanted a clearer explanation of its purpose and role in the company. The General Manager of the Hong Kong joint venture was particularly keen that further explanations of the practice would be more detailed, less conceptual and more practical.

² At a micro level this was demonstrated by the selective approach some Excelsior managers adopted as to what part of the ethical policy they chose to highlight emphasising those parts that were directly relevant to their role e.g. health & safety while ignoring or being oblivious of other aspects of the policy.

The comment by the Managing Director of Excelsior's Japanese subsidiary, that he thought the work he had been asked to undertake to meet the requirements of the Sarbanes-Oxley Act (that is legally required of all companies with a stock market listing in the United States) had been given a greater priority and more clearly explained than the RBSIC³, suggests that the implementation of the RBSIC, to meet the requirement of the UK's Combined Code of Corporate Governance (that consists of recommendations not laws), was not accorded the same level of importance in Excelsior as meeting the legal requirements of the Sarbanes-Oxley Act. Later conversations with the Group Audit Manager responsible for the international implementation of the RBSIC confirmed this to be the case.

The failure of most managers to understand the reasons for the RBSIC is, in part, a reflection of the lack of knowledge of the underlying reasons for the practice. None of the managers interviewed had read the Turnbull guidelines and only half had heard of them. In Japan only the British Managing Director and the Legal Manager of Excelsior's Japanese subsidiary were aware of their existence; neither the General Manager Finance or the Finance Manager in Excelsior's Chinese subsidiary had heard of them; both of the managers of Excelsior's Hong Kong joint venture had heard of the guidelines but admitted they did not know what they were; and among the Landmark managers only the Managing Director (Landmark) of the company's Taiwanese joint venture and the Managing Director of the Hong Kong joint venture had any knowledge about them. In Singapore all three Excelsior managers had heard of the Turnbull guidelines but only because they had been mentioned during a

³ Excelsior heads of business units were required to sign a document stating that they had undertaken the work required by the Sarbanes-Oxley Act. This tended to reinforce the perceived importance of Sarbanes-Oxley leading a number of managers to comment that it had been accorded a higher priority by the management of Excelsior than the RBSIC.

presentation by the Business Continuity Manager Asia-Pacific who visited the business two weeks earlier.⁴

A number of managers expressed their surprise upon being told that the Turnbull Report consisted of only eighteen pages of which just thirteen contained the guidelines and many questioned why they had not been given a copy of them and two of the managers, the Managing Director of Excelsior's Malaysian subsidiary and the Managing Director of Landmark's Taiwanese joint venture, asked the researcher to send them a copy.⁵

The managers understanding regarding the role of the Turnbull guidelines in UK corporate governance was even more limited. The Managing Director of Excelsior's Japanese subsidiary demonstrated an appreciation of their regulatory significance, as in a more limited way, did the Senior Finance Director of Excelsior's Thai subsidiary. The Excelsior General Manager for Risk, his deputy, the Regional Finance Director and the Finance Manager of Excelsior's Malaysian subsidiary were aware the guidelines had a corporate governance role but did not understand their function in UK corporate governance. In Thailand the Senior Finance Director of Excelsior's subsidiary had some awareness of their relevance in UK corporate governance but this was very limited while the Managing Director added that he was much more familiar with the Sarbanes-Oxley Act⁶ due to the related work he was required to carry out in 2003. The Managing Director of Landmark's Hong Kong joint venture's knowledge

⁴ The Turnbull guidelines were probably discussed following questions from the Singapore management team regarding the purpose of the researchers' upcoming visit to the office. As mentioned previously the General Manager had been rather unsettled by the prospect of the visit feeling there may have been an ulterior motive behind it.

⁵ Both were sent a PDF copy by the researcher.

⁶ Excelsior is also listed on the US stock market and is required to follow US corporate governance regulations of which the Sarbanes-Oxley Act is a key component.

of the guidelines' corporate governance role was limited to having read the statement in the annual report that referred to compliance with Turnbull.

Four managers misunderstood the purpose of the recommendations contained in the Turnbull guidelines. In Singapore the General Manager of Excelsior's subsidiary thought that the practice derived from the recommendations was part of the audit process as the headquarters Audit Department was responsible for the RBSIC. While the Finance and Administration Managers thought that corporate governance "*was something that is more related to the finance side of the business*" and did not appreciate the role of corporate governance beyond this limited perspective or its connection with the Turnbull guidelines and the RBSIC. The role of the guidelines was also misinterpreted by the Finance Director of Excelsior's Australia subsidiary who described them as: "*Rules relating to internal control that minimise risk and directors liability.*"

Although an awareness of the Turnbull guidelines is not essential to carry out the RBSIC managers are more likely to be committed to the practice if they have an understanding of the reasons why they are being asked to undertake it. This requires an explanation of the role of the Turnbull guidelines and why it is necessary for the company to comply with them. This was not the case as shown by the limited knowledge of the Turnbull guidelines demonstrated by the subsidiary and joint venture managers of both companies which in itself was not surprising given the minimal effort that has been made to explain the guidelines and their relevance. Excelsior's explanation of the guidelines appears to have been limited to the original presentations made to senior staff throughout the region by the previous Group

Director of Business Risk Management and the existing Head of Group Audit in 2002. Since that time large numbers of managers have left the group to be replaced by managers who were either hired from other companies or joined Excelsior as an employee of a company they acquired. None of these managers upon joining the company were given any explanation of the guidelines and their role in the company.

Managers working in Landmark's joint ventures had not been given any explanation about the guidelines or, in the case of British managers, had any experience of them prior to their secondment to their respective joint venture. As previously mentioned only the British Managing Directors of their two joint ventures, who had read the statement that referred to compliance with Turnbull in the Landmark annual report, had any knowledge about the guidelines and this was minimal.

Only the General Manager for Risk and the Senior Finance Director of the Thai subsidiary believed that enough had been done to explain the benefits of the RBSIC and relate it to the needs of the region. Elsewhere considerable dissatisfaction was expressed regarding the explanation of the benefits that could be derived by individual businesses.

The Regional Finance Director felt very little progress had been made since the introduction of the RBSIC two years earlier and more work needed to be done to explain the benefits offered to individual business units by the practice. The Regional Finance Director was supported by the Finance Director of the Australian subsidiary who did not believe that anything had been done to relate the RBSIC with the needs

of the business or explain the benefits that could be derived from the practice. Similar views were expressed by the Finance Director at Excelsior's Japanese subsidiary.

In China the Finance Manager admitted he had never asked what the benefits were but he believed he could identify them himself without being told, while the General Manager Finance said he had not been given very much information about the RBSIC. In Singapore all of the managers felt that not enough had been done to explain the benefits of the RBSIC or relate it to the needs of the business.

In Hong Kong both of the managers said the benefits of the RBSIC had been explained to them by the regional RBSIC team. However, both felt the need for more information to gain the maximum from the practice. The General Manager was very keen to learn about the adoption of the RBSIC by other offices in the region and said he would welcome the opportunity to exchange ideas and experiences. The Accountant added that she thought the business could get more from the RBSIC but was not sure how.

In the Thailand subsidiary there was a difference of opinion between the two managers. The Senior Finance Director correctly saw the purpose of the RBSIC as identifying key risks to the business and taking appropriate action to mitigate them. However, his immediate superior, the Managing Director, questioned how they could understand the benefits that could be derived from the practice as they had not received a full explanation of the RBSIC. He was particularly concerned how managers were expected to make judgements about risk when they had not been given a framework within which judgements could be made. In this case although the Senior

Finance Director understood the purpose of the RBSIC and could relate it to the needs of the business it is unlikely that he had the necessary skills to fully appreciate the benefits that could be derived from the practice.

The failure to effectively explain the reasons for the RBSIC, its corporate governance role and the potential benefits to a business unit are, in part, a reflection of the flow of knowledge relating to the practice from the source of the knowledge⁷ to individual business units. Opinions of managers and business units differed considerably about this subject. The Excelsior Group Manager for Risk felt that it was quite good with the importance of internal control being regularly reinforced. However, he went on to say that although the flow of knowledge between corporate headquarters and regional headquarters was 'two-way' it tended to operate on a fixed schedule. He added despite visiting the UK twice a year he had not attended any meetings concerning the RBSIC with the majority of discussions about the subject conducted via electronic media.

The Excelsior Regional Finance Director commented that information about the RBSIC had not been widely communicated and tended to be limited to the executive and senior management. A view shared by the Finance Director of the Excelsior's Australian subsidiary who commented: *"Most people will have never heard of the Turnbull guidelines but will have some insight into the internal control system."* He added that more information should be provided from corporate headquarters with the objective of raising the profile of the practice

⁷ Corporate or regional headquarters

Managers in Excelsior's Hong Kong, Chinese, Thai and Japanese subsidiaries all spoke positively about the flow of knowledge relating to the RBSIC from the Asia-Pacific regional headquarters to their subsidiaries. The Managing Director of Excelsior's Japanese subsidiary said: *"The group has been very clear in its communication regarding internal control."* This view was not shared by the subsidiary's Legal Manager who described the flow of knowledge as *"poor"* commenting: *"There is a definite need for more information. There is very little documentation (none that explains why the practice is being carried out) and there have been no training workshops. The language barrier is also very important."* He was also concerned about the lack of feedback from regional and corporate headquarters regarding data provided by business units so that modifications can be carried out where appropriate. He was supported by the subsidiary's Directors of Finance and Operations who felt the general level of communication about the RBSIC was unsatisfactory with the exception being information relating to deadlines.

The two managers of Excelsior's Thai subsidiary described knowledge flows as limited to senior management and frequently informal. A similar view was expressed by the Finance Manager of Excelsior's Malaysian subsidiary who went on to say that he was not sure if the flow of knowledge regarding the RBSIC was adequate as he was *"....not sure what is needed."*

The General Manager of Excelsior's Singapore subsidiary remarked on how the number of people who had initially been involved with the RBSIC had reduced substantially with the flow of information on the subject reduced to yearly updates.

The other members of the management team commented that nearly all communication regarding the RBSIC occurred at the time of the annual risk review.

The Finance Manager of Excelsior's Chinese subsidiary remarked that awareness needed to be raised to improve the level of internal debate about risk management and mitigation. While the General Manager of the Excelsior Hong Kong business believed most people were aware of the RBSIC even though the consultation process only involves senior staff.

All of the Landmark managers in both Taiwan and Hong Kong believed the flow of information relating to the RBSIC from corporate headquarters to be very limited with a number of them adding that they were restricted in developing their understanding of the practice as they did not have access to the company intranet and the information they did receive tended to be related to health and safety issues.

The Managing Director of the Landmark's Hong Kong joint venture commented that he had not received any information about the RBSIC. Given that the business had only just been established and was very small this, although not necessarily correct, should not be seen as surprising.

Poor knowledge flows are reflected in the lower than predicted level of awareness of Excelsior's ethical policy. The erratic distribution of the company's ethical policy booklets meant that it had not been seen by all of the managers interviewed for this study. Even among managers who had seen the booklets it was generally felt there was a need for a greater explanation of the policy and that the issuing of two booklets

was insufficient for the practice to be fully understood and internalised. The General Manager of the Singapore subsidiary questioned the value of a practice that required her to simply distribute booklets without any follow up or discussion of their relevance to the business.

Also, a failure to provide businesses with a thorough explanation of the practice and its value is likely to increase the probability of it being seen as a mechanical practice, whereby, booklets covering ethical policy are given to staff thereby satisfying the requirements of corporate headquarters without the practice becoming institutionalised in the business. This increases the likelihood of the ceremonial adoption of the policy.

A further barrier to knowledge flows relating to Excelsior's ethical policy was highlighted by the managers in its Japanese subsidiary who wanted to know if the ethical policy booklets were available in Japanese. The Excelsior General Manager for Risk was unsure and went on to say that he was unaware of what language versions of the booklet existed. Given the likelihood that many of Excelsior's employees are unable to read English the probability of them understanding the company's ethical policy if it is not available in their mother tongue will be substantially reduced.

Overall, a small majority of Excelsior managers expressed their satisfaction with the quality and quantity of information they received about the RBSIC. No clear patterns could be identified showing a relationship between the type of business / role of managers and the level of satisfaction with the flow of information. However, a

number of potential reasons can be suggested for an individual manager's level of satisfaction with the information flow.

The level of commitment to the RBSIC by individual managers is likely to be positively related to their level of engagement with the source of the knowledge. This suggests that if the flow of information is inadequate it is more likely to be noticed by a manager who is more committed to the RBSIC and wants to know more about the practice. An example of this would be the Legal Manager of Excelsior's Japanese subsidiary who clearly demonstrated an interest in the RBSIC while pleading for more information and additional training so that his business unit could gain the maximum benefit from the practice.

Manager satisfaction with the flow of information could also be related to the length of time the business unit has been part of the overall group. If the business unit has recently been acquired it may have been identified by the source of the knowledge as warranting more attention and is therefore likely to benefit from a greater flow of knowledge than may otherwise be the case. An example would be the Excelsior Thai subsidiary that was acquired in 2002 and was in a country where Excelsior's previous presence had been very limited and did not include any business units. This could be the reason why both of the business unit's managers interviewed expressed their satisfaction with the flow of knowledge relating to the RBSIC.

The seniority of a manager could also be a factor in his / her level of satisfaction with the flow of knowledge. The more senior a manager the less likely they are to be involved in the day to day operation of the RBSIC and the less likely they are to be

aware of any shortcomings of the flow of information about the practice. This could explain why the Managing Director of the Japanese subsidiary expressed far greater satisfaction with the flow of knowledge related to the RBSIC than the Legal Manager.

Landmark managers were unanimous in expressing their dissatisfaction with the flow of information about the RBSIC. In the case of the Taiwanese joint venture this was possibly a reflection of the importance attached to the business by headquarters personnel who, due to the size of the business, did not believe it warranted the expenditure of the resources required to transfer the necessary information. In addition as most of the Taiwan based staff were not directly involved in identifying the risks that are transmitted to the Risk Management Department corporate headquarters may have felt there was little reason to provide the business unit with a detailed explanation of the practice despite local staff being responsible for the management of risks.

The lack of awareness about the RBSIC among Excelsior's more junior employees suggests that it will be difficult for the company to follow the recommendation in the Turnbull guidelines that states: *"All employees have some responsibility for internal control as part of their accountability for achieving objectives. They, collectively, should have the necessary knowledge, skills, information and authority to establish, operate and monitor the system of internal control. This will require an understanding of the company, its objectives, the industries and markets in which it operates, and the risks it faces."* (Turnbull, 1999, Para. 19)

The recommendation in itself is unlikely to sufficiently motivate business units to institutionalise the RBSIC. If all of a business units employees are to become involved in the practice, albeit to varying degrees, local management will need to ensure that all of the business unit's employees are aware of the RBSIC. As the Senior Finance Director of the Thai subsidiary commented employees are more likely to "*appreciate*" the RBSIC once they have some understanding of the practice. To date understanding and awareness about the RBSIC has been hampered by the absence of formal documentation about the practice.

Inconsistent understanding of the reasons for the RBSIC among the Excelsior and Landmark business units is likely to increase the degree of causal ambiguity surrounding the RBSIC. This is most likely to occur when the respective corporate headquarters are unaware of what aspects of the practice local business units lack a complete understanding of. In these cases the probability of the successful replication of the practice, requiring the re-creation of knowledge in such a way that the performance of the RBSIC meets the requirements of corporate headquarters, is likely to be reduced. Causal ambiguity signals the absence of knowledge as to why something is done including why a given action results in a given outcome (Szulanski, 2003: 27). If the practice cannot be replicated in the Excelsior and Landmark business units because of differing levels of local understanding of the inner workings of the RBSIC, difficulties that arise may have to be solved locally, requiring the expenditure of costly financial and time resources.

9.2.0 Related Knowledge

Having considered the level of understanding of the reasons for the RBSIC among individual business units we will now move on to consider the level of underlying knowledge relating to the practice present in each business unit. Knowledge about the components of a practice, including the skills required for its effective operations are an important component of business units absorptive capacity. Companies invest in absorptive capacity when they provide personnel with advanced technical training which in turn adds to a business unit's overall absorptive capacity (Cohen & Levinthal, 1990).

Less than half of the Excelsior and Landmark managers felt their knowledge of the RBSIC was sufficient to enable them to undertake and fully benefit from the practice. Dissatisfaction about the level of training and documentation they had received was widespread. Only the Excelsior General Manager for Risk was in no doubt that he had received sufficient training. A number of Excelsior managers were confident that they could rely on the regional RBSIC team for any assistance they required if they were unable to undertake the RBSIC by themselves.

The majority of Excelsior managers were confident that they had adequate knowledge of the RBSIC to be able to undertake and benefit from the practice. The General Manager for Risk described it as *"a simple system to follow"*. While both of the managers of the Thai subsidiary believed they had the necessary knowledge to manage the RBSIC adding that if they encountered any difficulties they knew they could get help from the regional RBSIC team. The Finance Manager of the Chinese

subsidiary also believed that he had the necessary knowledge to undertake and benefit from the practice adding that the documentation that he had been provided with was adequate.⁸

The Managing Director of Landmark's Hong Kong joint venture was confident that when the time came he would have the necessary skills to operate the RBSIC although training would be required for all of his team with regard to the specific characteristics of the practice.

A difference of opinion existed in Excelsior's Hong Kong joint venture and its Singaporean subsidiary. In Hong Kong the General Manager felt that he had enough knowledge of the practice to undertake the RBSIC while the Accountant was uncertain of her abilities. While in Singapore the General Manager believed her knowledge was sufficient, especially if given proper training, whereas the Finance and Administration Managers were adamant that they lacked the necessary skills to properly undertake the task.

Differences of opinion also existed among the managers of Landmark's Taiwanese joint venture. The Managing Director (Landmark) was confident that the joint venture could institutionalise the RBSIC when asked to by Landmark corporate headquarters. The Marketing Manager while less confident felt "*all of the staff have got different strengths which can be brought together in the RBSIC*". However, they have never had any training concerning risk management. The Operations Manager honestly stated that he did not have the skills to do the job.

⁸ The Finance Manager was referring to the three documents available through Lotus Notes provided by the Regional RBSIC team.

The Finance Manager of Excelsior Malaysian subsidiary said that he thought he had “80% of the knowledge necessary” to undertake the RBSIC but definitely needed “advanced training”. Less confident were the Finance Director of the Excelsior Australian subsidiary, who felt that he probably did not have sufficient knowledge of Turnbull and that he needed to understand more about guidelines and the RBSIC to see its relevance to the business, and the Legal Manager of Excelsior’s Japanese subsidiary who said: “*I do not have much idea of what is expected from me and what the practice can do for our business please give me training. There is very little documentation.*”

Absorptive capacity is largely a function of a business unit’s pre-existing knowledge about a practice, should it be absent or insufficient, it will have difficulty in valuing, assimilating and applying the RBSIC successfully (Cohen and Levinthal, 1989: 569; 1990:128). Cohen and Levinthal (1988) stated that some portion of prior knowledge should be very closely related to the knowledge being transferred to facilitate assimilation. This has implications for Excelsior and Landmark because although only the Excelsior General Manager for Risk and his deputy the Business Continuity Manager Asia-Pacific Region, admitted to having no previous experience of working with a system of internal control none of the managers had experience of risk-based systems of internal control.

The limited knowledge of systems of internal control among the managers is not unexpected given their previous experience when their responsibilities for internal control were in most cases minimal and / or indirect (e.g. Managing Director / General Manager with overall responsibility for the business). In addition managers

generally associated internal control with financial controls that were normally the responsibility of the finance function and monitored by the audit department and therefore regarded, correctly or not, as outside of their managerial remit. When managers operated non-financial controls they tended to be informal based on the tacit knowledge that they had acquired over their career working for their present and previous companies. Given their different types of experience both in terms of level of seniority and roles undertaken the tacit knowledge they had acquired differed considerably and was in turn reflected in their attitude and approach to internal control.

Managers who joined Excelsior as a result of the acquisition of their business unit from a United States MNE appeared to have a greater appreciation of non-financial controls, although this varied considerable. This may have been due to their previous employer's adoption of the guidance on internal controls for United States companies, published in a report by the Committee of Sponsoring Organisations (COSO) of the Treadway Commission (National Commission on Fraudulent Financial Reporting) in 1992, which adopted a broader approach to internal control beyond an exclusive reliance on financial measures.

The limited experience of systems of internal control among the managers working in each business suggests that the level of absorptive capacity, relating to systems of internal control, will differ considerably between business units and very often may not be adequate. Another potential concern relates to the reliance on tacit knowledge, by many of the managers, to operate the non-financial components of a system of internal control. Assuming that the level of tacit knowledge differs between managers

there is a possibility that they will adopt different internal control techniques with varying success.

This data has revealed considerable differences among managers regarding their ability to identify risks with two managers openly admitting they did not know how to undertake the task. The identification of risks is a basic skill requirement for employees involved in the RBSIC. The majority of managers had some experience of risk management but most did not have any familiarity with a formal risk management system and among those who did the range of experience and expertise differed significantly.

Among the Excelsior managers the General Manager for Risk, Finance Director of the Australian subsidiary, Finance Manager of the Chinese subsidiary, Accountant of the Hong Kong joint venture, Finance Manager of the Malaysian subsidiary and the managers of the Thai and Singaporean subsidiaries admitted that they did not have any previous experience of working with a formal risk management system.

Of the managers who had some experience of a formal risk management system⁹ the Excelsior Regional Finance Director said that he had used a risk management system when participating in the preparation of the annual business plan. The Legal Manager of Excelsior's Japanese subsidiary said his previous experience had been at an American company using systems based on their national standards. The Finance and Operations Directors of Excelsior's Japanese subsidiary commented that the RBSIC

⁹ Experience of formal risk management practices came from three sources – previous employment, the Excelsior annual planning process and risk management practices with a limited scope e.g. health and safety.

was not very different from the previous system they had used;¹⁰ however, it is more sensitive. The General Manager of Excelsior's Hong Kong joint venture said that the RBSIC was far more developed than any systems he had been involved with in any of the other companies where he had worked.

Few of the managers were able to clearly articulate how they identified risks and some admitted they lacked the necessary skill to do so. The Excelsior General Manager for Risk, Finance Manager of Excelsior's Chinese subsidiary, Managing Director of Excelsior's Thai subsidiary, Finance Manager of Excelsior's Malaysian subsidiary and the Managing Director (Landmark) of Landmark's Taiwan joint venture all acknowledged the role of tacit knowledge when they identified risk.

In addition to applying his tacit knowledge the Finance Manager of Excelsior's Chinese subsidiary said that he *"just copied the instructions given from regional headquarters"* While the Managing Director of Excelsior's Thai subsidiary, who acknowledged that the business needed to develop more expertise in identifying risks and use these skills more frequently, said that in addition to tacit knowledge he relied on functional leaders and outsiders to bring risks to the attention of the management group. He also emphasised the role of good communication and discussion as did the Finance Manager of Excelsior's Malaysian subsidiary.

All three British Landmark managers admitted there was no formal process in place to identify risk with each one adopting a different approach. The Managing Director (Landmark) said he did not look specifically for risks but made a study of the overall

¹⁰ When referring to the previous system the Finance and Operations Directors meant the system used in the annual business planning process. This was not a risk based system of internal control designed to be part of the company's ongoing operations.

operating environment from which risks emerged. The Marketing Manager, after a long pause, frankly said that he *“didn’t know”* how to identify risks while the Operations Manager identified risks through *“walking the job, using key performance indicators and yearly targets”*. The Managing Director of Landmark’s Hong Kong joint venture commented: *“My natural way of working is to manage risk”* and he did this by considering product (quality etc.), financial (risk of loss) and the company (the future of the joint venture).

In Hong Kong both Excelsior managers acknowledged that they were unsure how they should go about identifying risk. The General Manager said it is easy if you are looking at sales management because the figures are available, however, outside of this area he needed more guidance. While the Accountant, honestly, admitted that she did not know how to identify risk. In Singapore none of the Excelsior managers gave a very clear indication as to how they identified risk. The General Manager said: *“In our life there is always risk, everything we do involves risk, therefore, risk management must be done all the time.”* While the Finance and Administration Managers were of the view that they did not really anticipate risks but became aware of them when they became apparent.

The RBSIC at Excelsior and Landmark has a far greater scope than any of the managers had previously experienced. Although the knowledge they had gained operating earlier systems should add to their business unit’s absorptive capacity, making it easier for the RBSIC knowledge to be successfully transferred, the manager’s previous experience in itself will not be sufficient to ensure the successful transfer of the practice. It is possible that a manager’s previous experience of risk

management systems could hinder the institutionalisation of the RBSIC if a manager is not motivated to learn a new practice believing it adds little value to his / her existing knowledge. In addition if the scope of a previous system was limited it may be difficult for managers to appreciate the value of the wider view of risk recommended in the Turnbull guidelines. This data suggests that the latter is the more likely to be the case.

The different methods that managers use to identify risks, and the range of relevant skills they have (if they have any), should be of concern to both companies as they are likely to have serious implications for the consistency of the data gathered for the RBSIC. Managers may view risk based on varied tacit knowledge, that they have accumulated throughout their careers, which they frequently have difficulty articulating e.g. the Landmark Operations Manager's comment that among the ways he identified risk was "*walking the job*" suggesting that he knew a risk when he saw it but wasn't adopting a formal approach to identify it.¹¹ Some managers identified risks by comparing performance to key indicators this could be a source of difficulties if the same indicators are not used by all of the managers at a company or accorded equal importance.

The level of training about the operation of the RBSIC was a matter of concern for nearly all of the managers with the exception of the Excelsior General Manager for Risk. The Finance Director of Excelsior's Australian subsidiary commented that he had not received sufficient training and was unsure what training would be of value. He was also unaware if any documentation was available about the RBSIC. He went

¹¹ This approach was consistent with the Operations Manager's emphasis on Health and Safety.

on to add that if he needed information about the practice he was sure it would be provided by the General Manager for Risk.

Supporting the Legal Manager's plea for more training the Operations Director of Excelsior Japanese subsidiary cynically added: "*The only training in this organisation is the fire drill*". The Finance Manager of Excelsior's Chinese subsidiary also remarked that he would like more training, so as to gain a greater understanding of the practice but was unaware of how beneficial it would be – "*as you don't know what you don't know.*" He added that if he had any problems he could always call on the General Manager for Risk or the Business Continuity Manager at regional headquarters for assistance.

The managers of Excelsior's Hong Kong joint venture were both very eager to receive additional training on the practice. The General Manager was keen to emphasis that the training should not only be technical but more practical in nature. He also thought some kind of benchmarking would be useful so that he could compare the output of the business with others in the region. The Accountant, who claimed that she had not received any training on the RBSIC, was also enthusiastic to learn from the experiences of other businesses. Both managers complained about the absences of any documentation relating to the practice saying that a procedures manual would be very useful. A similar view was expressed by the Finance Manager of Excelsior's Malaysian subsidiary who commented that to date he had only received very brief training from the regional RBSIC team. This was more than two years earlier and mainly dealt with the mechanics of the practice. He also complained that there was no documentation available on the RBSIC. He thought this was especially important

because he was not involved in handling risk when the RBSIC was introduced and did not have any information passed over to him when he took over the task. The Regional Finance Director also said that he would find additional training useful as he had not received any training since the original presentations two years earlier.

Both the Managing Director and Senior Finance Director of Excelsior's Thai subsidiary were adamant about the need for more training. The Managing Director was of the opinion that there was a need for relevant knowledge to be better articulated. He also expressed his concern about whether the business had sufficient knowledge concerning judgement issues. He stated that there was "*a need for a fresh approach to improve clarity and make people look at things in a different way*" he added that he would like to see more sharing of information and practices with other businesses in the region. The Senior Finance Director was also keen to learn from other businesses and wanted more training on how to mitigate risks. He also expressed his concern at the lack of documentation available on the RBSIC.

All three managers of Excelsior's Singapore subsidiary were certain there was a definite requirement for more training about the RBSIC and there was a considerable need for documentary support such as a procedures manual. The General Manager felt that training was necessary to provide more understanding of the practice, enabling the whole team to be involved and to allow the RBSIC to move beyond being a one-off yearly review.

The three British managers of Landmark's Taiwanese joint venture agreed that training would be very valuable as would a procedures manual. The Marketing

Manager remarked: *“Any training is good; opportunities for our staff appear very limited.”* In Hong Kong the Managing Director of Landmark’s joint venture acknowledged that training would be required for all of his team with regard to the specific characteristics of the practice if it is to be successfully institutionalised.

The only manager who was confident that he had received enough training was the Excelsior General Manager for Risk who said: *“The Business Continuity Manager Asia-Pacific and I would only require more training if the system changed, it is essential to stay current....my deputy provides training throughout the region.... there is no manual just the guidelines.”*

However, he did acknowledge that he thought that the managers who had responsibility for RBSIC in the region’s individual business units would benefit from the opportunity of meeting together, perhaps on an annual basis, to be introduced to new ways of identifying and mitigating risks while being provided with a forum to share best practices.

Two possible reasons can be identified for the Excelsior General Manager for Risk confidence that he did not require additional training: Firstly, he genuinely believed he had a full understanding of the practice even if this was not the case; or secondly he was not prepared to admit his lack of knowledge about a practice for which he had responsibility in the region fearing this would reflect badly upon him. This research suggests that the first reason was the most likely explanation.

The comment by a number of managers that they had sufficient knowledge of the RBSIC for them to undertake and fully benefit from the practice appears to be inconsistent with the same manager's insistence that they needed more training about the RBSIC. This suggests they consider themselves to be meeting the requirements set by headquarters while at the same time believing that they do not have a proper understanding of the practice. If this is the situation they are not deriving the maximum benefit from the practice even if they claim this is the case. A number of Excelsior managers also suggested that if they had difficulties they could rely on the General Manager for Risk to assist them. If this is correct his role could provide local managers with a disincentive to develop a full understanding of the practice knowing he can be relied upon to support them should they need assistance (see 11.4.0). However, even if the General Manager for Risk were to provide assistance it would probably be limited to ensuring business units provide him with the information required for the RBSIC database and is less likely to concentrate on how that data was collected and risks were monitored. Once again this suggests the RBSIC will be ceremonially adopted by a business unit without it reaping the full benefits offered by the practice.

Among the managers who did request additional training two themes were apparent: Firstly, managers knew they required additional training but were unsure of what training they needed because they did not know enough about the RBSIC. This in itself is a reflection of the lack of training and general awareness about a practice that is seen as a 'one-off' annual task by many of the managers in the region. Secondly, there was considerable concern about the absence of documentation about the RBSIC with a number of managers asking for a procedures manual. Both Excelsior and

Landmark provided considerable documentation about the RBSIC via the company intranet. However, Landmark employees did not have access to relevant site and rather more surprisingly none of the Excelsior employees, including the Excelsior General Manager for Risk, were aware of the existence of the website and the documentation it contained (see 5.1.2).

9.3.0 Conclusion

The institutionalisation of the RBSIC is likely to be impeded by the lack of understanding of the reasons for the practice and the potential benefits it could offer a business unit. This, in part, is due to poor communication relating to the practice reducing awareness in individual business units. An informal understanding of the practice that could be summarised as a perception that *managing risk is a good thing* was present in all business units suggesting that the value of the RBSIC would be appreciated if the business units had a better understanding of the practice.

Prior related knowledge identified by Cohen and Levinthal (1988) as knowledge closely related to the knowledge being transferred was clearly absent in all of the business units, with the possible exception of Excelsior's Thai subsidiary, further reducing the level of absorptive capacity increasing the need for effecting training and the expenditure of resources allocated to the RBSIC.

The need for additional training and documentation about the practice was a familiar refrain from informants with the data clearly indicating they lacked the necessary knowledge to maximise the benefits offered by the RBSIC. An example of this was

provided by the uncertainty expressed by many managers as to how they should identify risk. Additional training would require the provision of additional resources for the practice. This appeared unlikely given that the majority of managers questioned whether they had sufficient resources to undertake what was currently expected of them.

Furthermore, if the level of knowledge about the RBSIC and the reasons for its introduction can be raised to a consistent and high level in all of the business units this would reduce the degree of causal ambiguity in the transfer of the practice increasing the likelihood of its successful institutionalisation.

Having discussed the practice itself the next chapter will consider the degree to which both the source of the RBSIC and individual recipient units are motivated to institutionalise the practice.

CHAPTER 10

MOTIVATION

10.0.0 Introduction

Chapters 7 to 9 discussed the two contexts within which the transfer of the RBSIC occurs and the practice itself. This chapter discusses the second factor influencing the degree of institutionalisation related to the actual transfer process – motivation – and is concerned with the motivation for the successful transfer and institutionalisation of the RBSIC from the perspectives of both the source of the knowledge and the recipient. Even if the other factors in the institutionalisation of the RBSIC (see 6.4.0) are supportive of institutionalisation if either, or both, the source and the recipient are not motivated to transfer and institutionalise the practice the probability that it will be successfully institutionalised will be reduced.

This research identified two sub-factors as having an important role in determining the level of motivation to institutionalise the RBSIC. Each one is considered in a separate section in this chapter: The first – *the source of the RBSIC* – discusses the motivation of the source of the practice and how it is perceived by recipient business units; and the second – *recipient business unit* – discusses the motivation of recipient business units specifically considering the relationship between the institutionalisation of the RBSIC and career advancement, and the degree to which local business managers believed the practice added value to their business. It concludes with a brief summary of other reasons suggested by managers as to why they were motivated to undertake the RBSIC.

10.1.0 Source of RBSIC

The primary motivation for the source of the RBSIC to institutionalise the practice was to meet the recommendations contained in the Turnbull guidelines. However, as was discussed in the previous chapter (see 9.1.0) awareness of that purpose among both the Excelsior and Landmark Asia-Pacific business units was very limited. The other benefits predicted by the source including greater understanding of risk and improved decision making leading to increased overall performance (see 5.1.2 and 5.2.2) were emphasised to much lesser degree by headquarters informants in both companies and also not fully understood by local business units.

The greater the perceived importance attached to institutionalisation of the RBSIC by headquarters, the greater the motivation at local business units to institutionalise the practice. Therefore, if the recipient perceives that the institutionalisation of the RBSIC is not a priority at the source it is unlikely to be particularly motivated to institutionalise the practice.

A consensus did not exist among Excelsior managers as to the importance their regional and corporate headquarters placed on the successful institutionalisation of the RBSIC and the degree to which they were motivated to achieve this. In contrast the Landmark managers who were prepared to comment were unanimous in the belief that the practice was not seen as important by their corporate headquarters.

All of the Excelsior managers interviewed at the company's regional headquarters, Japanese, Chinese and Thai subsidiaries, and the Hong Kong joint venture believed

that the successful institutionalisation of the RBSIC was very important to the source of the knowledge which they acknowledged as either, or both, the Asia-Pacific regional headquarters and the corporate headquarters. In all of these cases the managers cited the assistance provided to them by either corporate or regional headquarters¹ as evidence of the importance attached to the practice.

This view was not shared by the Finance Director of Excelsior's Australian subsidiary who commented: *"It is important to the Regional Finance Director but other than that its importance varies depending on who you talk to."* He added that both regional and corporate headquarters *"probably believe in getting the bare minimum done"* suggesting the RBSIC was not important to corporate headquarters and it would be satisfied if there was ceremonial adoption of the practice.

The Finance Manager of Excelsior's Malaysian subsidiary hesitantly said that he thought the institutionalisation of the RBSIC was important to both the Asia-Pacific and corporate headquarters. Although he did not see it as priority commenting: *"There have been lots of changes throughout the region over the last two years, including a major acquisition, so management has not focused on the RBSIC. The level of awareness about the RBSIC needs to be raised inside the business and this requires more involvement from senior management who have not really been putting a great deal of effort into it."* The Finance Manager's judgement may have been clouded by the very high levels of change that had gone on recently at the Malaysian subsidiary.

¹ From corporate headquarters in the case of the Asia-Pacific regional headquarters and from Asia-Pacific regional headquarters in all of the other cases.

Negative opinions were expressed by the management team of Excelsior's Singapore subsidiary and the managers in both of Landmark's joint ventures. In Singapore the managers generally felt that headquarters was not particularly motivated to help them understand and develop the RBSIC to its full potential. The General Manager remarked: *"I have not had much communication on the subject and it does not seem to be an area where there is much focus. Although this may be because the Singapore business is seen as unimportant due to its small size."* While the Administration Manager said rather sarcastically: *"Headquarters must see it as important or why else would you be here."*

A number of the Landmark managers concluded that as they had received no formal communication regarding the RBSIC from corporate headquarters they must not regard it to be of any importance. The Managing Director of the Landmark Hong Kong joint venture doubted whether a 'risk facilitator' (see 5.2.1) would be resourced when required.

The Excelsior Singapore subsidiary and the two Landmark joint ventures were very small businesses and all three admitted that the overall level of communication they had with their headquarters was low, therefore, the limited communication they had had with headquarters regarding the RBSIC in itself may not be an indicator of the importance of the practice to their respective headquarters.

Those Excelsior managers who thought the institutionalisation of the RBSIC was important to the source of the practice tended to base this primarily on the degree of effort made by the regional RBSIC team. As they were regional headquarters

employees local managers saw their effort and willingness to assist them as an indication that regional headquarters believed the institutionalisation of the practice to be important.

The attitude of senior management towards the RBSIC was seen by the majority of Excelsior managers to be supportive with the practice regarded as playing an important role in the company. The motivation of senior business unit managers to institutionalise the RBSIC is likely to be positively related to the importance attached to the practice by the Regional Managing Director. The higher the perceived importance attached to the RBSIC by the Regional Managing Director the greater the motivation to institutionalise the practice for business unit managers who wish to gain internal legitimacy with the highest levels of the company. The Excelsior Regional Finance Manager commented that *“last year the Asia-Pacific CEO was new to his position and his approach was reasonably cursory. This is not representative of him and it is likely to be different this year.”* If this is correct it suggests that senior Excelsior managers are more likely to be motivated to institutionalise the RBSIC in the future.

Negative comments were made by the General Manager Finance and Finance Manager of the Excelsior Chinese subsidiary who admitted they were uncertain as to the amount of senior management support for the RBSIC and the General Manager of the Singapore subsidiary who remarked *“that senior management seemed to have very little to say or support to offer for the RBSIC”*. The Finance Manager of the Malaysian subsidiary said that he did not have an opinion on the subject.

10.2.0 Recipient Business Unit

10.2.1 National Context

The cognitive, normative and regulatory components of national context will influence the degree to which recipient business units are motivated to institutionalise the RBSIC (see Chapter 7). The degree to which a business unit's national culture supports and understands the values of the RBSIC will be positively related to the motivation of a business unit to institutionalise the practice.

10.2.2 Career Advancement

The majority of business unit managers did not regard the institutionalisation of the RBSIC as something they needed to achieve to become internally legitimate with headquarters, thereby, becoming eligible for the rewards that headquarters could choose to bestow upon them. This suggests they do not believe their relationship with headquarters was likely to be damaged if they do not give a high priority to the institutionalisation of the RBSIC.

None of the Landmark and the minority of the Excelsior managers believed there was a link between their career advancement and the successful institutionalisation of the RBSIC. In general, the RBSIC was seen as one of a number of tasks that managers were required to undertake and upon which their contribution to the company would be measured. A number of managers suggested it was not a priority and lacked the necessary recognition inside their business unit for it to be seen as a key determinant

in an individual's advancement in the organisation. However, it was acknowledged by some managers that this position could change as the practice grew in perceived importance and value to the business, making it a greater priority for the manager charged with institutionalising the RBSIC in the business unit.

Four Managers believed there was a link between their career advancement and the successful institutionalisation of the RBSIC. They were the General Manager of the Excelsior Hong Kong joint venture, who described the successful institutionalisation of the RBSIC as “....*proving my skills to implement what I am asked to do by management. It is also a key performance indicator*”, who was supported by his colleague the joint venture's Accountant; the Excelsior Legal Manager in Japan who was confident that it was important for his future progress in the company; and the General Manager of Excelsior's Singapore subsidiary who acknowledging the value of the institutionalisation of the RBSIC said: “*A better run business will reflect well on me.*”

The Excelsior Group Manager for Risk and his deputy questioned whether the importance of the practice had achieved a high enough level of recognition in the company for its successful institutionalisation to be regarded as an important factor in determining whether an individual warranted promotion. However, both acknowledged this situation could change especially if the company was damaged in some way by an event that had not been identified as a potential risk resulting in a failure to apply appropriate mitigation measures.

The Managing Director of Excelsior's Thailand subsidiary was also uncertain of the relationship between the RBSIC and advancement in the company saying: *"It is a very critical practice and risk management is something that I have always taken seriously, long before I had heard of the RBSIC. If things go wrong it will definitely affect my position. Therefore, I need to be sure the RBSIC is done properly."* His colleague the Senior Finance Director was far more certain stating that the RBSIC would not directly affect his advancement as he had many other more important responsibilities. However, he did acknowledge that the practice would continue to assume a greater importance inside Excelsior.

The Finance Manager of Excelsior's Malaysian subsidiary had no doubt that the successful implementation of the RBSIC was not relevant to his advancement in the company adding *"....there are lots of other important things to do."* Similar views were expressed by the Finance and Administration Managers of Excelsior's Singapore subsidiary who, disagreeing with the General Manager, saw the RBSIC as a once a year practice which was one of many tasks they were required to undertake and was very unlikely to play a role in their advancement in the company.

In Taiwan the Managing Director (Landmark) of Landmark's joint venture when asked whether the successful institutionalisation of the RBSIC would positively affect his advancement at Landmark responded with a number of abrupt statements: *"Too early to say, but no!...my natural way of working is to manage risk....putting in a formal system is just one of my many tasks....success is judged in financial terms."* A similar view was expressed by the Managing Director of Landmark's Hong Kong joint venture.

Adopting a different approach, the Finance Director of Excelsior's Chinese subsidiary, while admitting that he did not feel successfully implementing the RBSIC would benefit his career at Excelsior, did say "*...it would be a very good skill to have if I was to join another company and it would help me to find another job more easily.*"

10.2.3 Value of the RBSIC

Given that the RBSIC had only been implemented at Excelsior responses about the value of the practice were limited to Excelsior personnel. The value of the RBSIC was appreciated to different degrees by most of the managers, however, only the managers of the Hong Kong joint venture believed it was enabling the company to function in a more effective manner and this was qualified with the remark that "*a lot more needs to be done*".

The General Manager for Risk characteristically was more upbeat than his colleagues when discussing the RBSIC stating that "*the value (of the RBSIC) is increasingly appreciated as the number of cycles increases; however, this value is probably only recognised at the top of the business unit*". He went on to say that his was motivated to undertake the RBSIC because it led to the "*provision of information for other initiatives....it has enabled us to know more about the business than we did before.*"

The Finance Manager of the Chinese subsidiary also regarded the value of the practice as proven because "*....it improves the level of thinking in the business*" adding that he was motivated to undertake the practice because "*it is a task that needs*

to be done to benefit the company.” However, he felt it was too early to tell if it was enabling the business to operate in a more effective manner.

The managers of the Hong Kong joint venture had a generally positive view of the RBSIC. The General Manager, who was keen to emphasize that risk management is a normal part of business, said of the RBSIC: *“In the sense of getting the team more ‘alert’ to the importance of risk management its value has been proven. However, it has not been tested.”* The Accountant was more positive saying that it had proved to be effective although she was reluctant to give specific examples. They both believed it enabled the company to function in a more effective manner, however, the General Manager concluded *“there is still a lot more that needs to be done especially in increasing awareness of the practice and a better definition of risk is required along with cross regional training”*. The Accountant added that she also found the practice to be very useful but added *“to truly benefit from the system I want more information about the practice and training.”*

The managers of the Thai subsidiary gave clear examples of how the RBSIC was adding value to their business. In 2003 the RBSIC identified a purchasing risk related to the likelihood of an increase in import duties. Working with a trade association negotiations were undertaken with the government with the objective of mitigating the risk. Subsequently the duty did not change. In addition the Senior Finance Director provided a more obvious example where the RBSIC brought the lack of fire protection at the plant to the attention of senior management leading to the introduction of a new sprinkler system. Despite these examples the Managing Director did not feel the RBSIC was allowing the company to function more

effectively at the operational level although he thought this may change as the practice becomes increasingly institutionalised. He was supported in this view by the Senior Finance Director. He went on to add that he was motivated to undertake the practice because *“to improve products and manage the business more effectively it is essential to understand the operating environment and its inherent risks.”* While the Senior Finance Director commented that his motivation came from the need to protect against *“risks to the health of customers and shareholder losses.”*

Other managers were not so optimistic. The Regional Finance Director felt that while the RBSIC had already provided some value, not least because it increased awareness of risk, more value could and should be gained from the practice. He was also concerned that the potential existed for a risk to be overlooked or as he put it *“fall through the cracks”*. The Finance Director of the Australian subsidiary, Legal Manager of the Japanese subsidiary and the Finance Manager of the Malaysian subsidiary all thought it was *“too early”* to tell if the value of the RBSIC was proven, although the Finance Manager of the Malaysian subsidiary did say *“it is better than nothing.”* He went on to say that the initial motivation for undertaking the practice was because it was a *“compliance² issue”* but as *“time goes on it makes you consider risks and their impact.”* The Legal Manager of the Japanese subsidiary said he was motivated to undertake the practice because *“it is essential to have such a tool in the modern business environment.”* The subsidiary’s Finance Director strongly disagreed with him saying when asked whether the RBSIC had added value to the business: *“No, not yet, in fact we do not care about it, it provides no additional value. Normal business practices involve the consideration of risk and that provides sufficient*

² By *compliance* the Finance Manager meant at the request of the Group Audit Department.

information and value. The practice is seen as more related to quality and health and safety.”

In Singapore, the General Manager thought it was too early to differentiate between the value added by the RBSIC and the *“normal ongoing approach to risk outside of the RBSIC that is very important to the management of the business”*. The Administration Manager, supported by the Finance Manager added: *“It does help by identifying mitigation actions that can be taken.* e.g. The business recently bought a fire proof cabinet because of concerns over a fire destroying important documents, this risk was identified during the RBSIC.

Only one manager the Finance Director of the Japanese subsidiary believed that the RBSIC did not provide any value to his business unit basing his opinion on the conviction that risk was adequately dealt with by the business unit’s existing practices. He then went on to demonstrate his lack of understanding of the practice commenting that the RBSIC was associated with quality control and health and safety. Given the poor opinion the Finance Director had of the RBSIC it is not surprising that he said that *“he did not care about it”*. In this case his lack of motivation to institutionalise the RBSIC seems to stem from a lack of understanding about the practice and its objectives. His comments contrasted dramatically with those of his colleague the Legal Manager who said of the RBSIC that *“it was essential to have such a tool in the modern business environment”*. His appreciation of the value of the practice, even though he admitted that presently he did not feel that it added to the effectiveness of the business, motivated him to undertake the RBSIC

and try to understand more about it and how he could maximise the benefits that could be derived from the practice.

Although other managers agreed with the Finance Director of the Japanese subsidiary that the consideration of risk was normal operating practice for a business they also felt that the RBSIC complemented existing risk management practices they may have adopted. Potential and actual benefits identified by managers that could be derived from the institutionalisation of the RBSIC included increased awareness of risk in a business unit, developing a better understanding of the operating environment through the provision of data that was previously unavailable and better protection for customers and shareholders. Once again the appreciation of the extra value that could be gained from the institutionalisation of the RBSIC was primarily a function of the relevant manager's understanding of the practice which was often reflected in the degree to which the manager was motivated to institutionalise the practice.

10.2.4 Other Reasons

Numerous other reasons were given as to why managers were motivated to undertake the RBSIC these included reduction of personal risk, requirements of the job, valuable business tool, compliance, protect customers and shareholders, and to improve the performance of the business. Most common was requirements of the job. Examples included the Finance Director of the Australian subsidiary who said: it was “....*to meet the requirements set by the Regional Finance Director (to whom he reports)*” and the General Manager of the Singapore subsidiary who commented she was motivated to undertake the RBSIC because “....*I am a professional employed by the*

company and must follow the rules. I have a personal interest because the risks identified could affect my position, because if something goes wrong the responsibility falls on the General Manager, and in Singapore this means I could go to prison.” If the manager is carrying out the RBSIC for this reason the probability of ceremonial adoption of the practice is greater as internalisation is unlikely to occur if the value of the practice is not acknowledged.

10.3.0 Conclusion

With the exception of the Finance Director of Excelsior’s Japanese subsidiary, all of the Excelsior managers identified some value, albeit difficult to quantify, to be gained from the operation of the RBSIC. Furthermore, to different degrees and in different ways they appreciated the potential for the RBSIC to add value to their business unit but were not yet sure of the extent, if any, that the practice would enable them to increase the effectiveness of their business unit. To date only the managers of Excelsior’s Hong Kong joint venture believed the RBSIC was enabling their business unit to function more effectively.

A minority of managers, all at Excelsior’s business units (Hong Kong, Singapore and Japan), associated the institutionalisation of the RBSIC with career advancement and in only one business unit – Excelsior’s Hong Kong joint venture – was this opinion unanimous.

Opinions were mixed among Excelsior managers concerning the degree to which the practice was perceived as important, and therefore a priority, by their corporate

headquarters. While Landmark managers were unanimous in their belief that the RBSIC was not important to their company.

Overall, the data suggest that levels of motivation to undertake the RBSIC are quite low increasing the likelihood of ceremonial adoption of the practice.

The next chapter considers the fifth and final factor in the institutionalisation of the RBSIC – the transfer process.

TRANSFER PROCESS

11.0.0 Introduction

This chapter discusses the fifth and final factor in the institutionalisation of the RBSIC the transfer process itself. The previous four chapters have discussed the contexts within which the transfer of the practice occurs, the practice, and the motivation of the source and the recipient to institutionalise the RBSIC. As previously stated, even if all of these factors are supportive of the institutionalisation of the RBSIC, if the transfer process is not undertaken effectively the practice is unlikely to be successfully institutionalised.

This research identified three sub-factors as having a key role in the transfer process. Each one is considered in a separate section in this chapter: The first – *relationship with headquarters* – discusses individual business unit's relationship with their respective headquarters; the second – *role of the gatekeeper* – discusses the key role of the gatekeeper in facilitating (or not) the transfer process; and the third – *knowledge retention* – considers the degree to which business units are able to retain knowledge about the RBSIC once it has been transferred.

11.1.0 Relationship with Headquarters

Landmark and Excelsior need to ensure that the level of contact with the source of the RBSIC is sufficient, not only in terms of quantity but also quality, to strengthen ties between parent and practice recipient, and increase understanding of the local operating environment by headquarters, thereby, decreasing the likelihood of causal ambiguity occurring. They should also aim to promote shared values and beliefs which in turn should reduce the likelihood of the 'not-invented-here' syndrome developing as new practices will be seen to a lesser extent as coming from outside the business unit increasing the likelihood of individual business units institutionalising the RBSIC.

The two companies differed considerably in the level of contact their Asia-Pacific businesses had with their respective headquarters.¹ In most cases, the exception being Japan, the Excelsior senior managers frequently visited their regional headquarters (or sub-regional headquarters) and in many cases had visited the company's corporate headquarters. Less senior managers had normally visited the regional and / or sub-regional headquarters on a number of occasions. All of the Excelsior business units were regularly visited by regional headquarters personnel including the General Manager for Risk who normally visited the businesses more than once a year. While managers at Landmark's Taiwanese joint venture commented that little was done to encourage Taiwan-based staff to visit corporate headquarters either for training purposes or to develop useful relationships that would enable them to function more effectively when they returned to the region. None of the local employees of

¹ Corporate and regional for Excelsior and corporate only for Landmark.

Landmark's Hong Kong joint venture had visited corporate headquarters; however, corporate headquarters personnel were frequent visitors to Hong Kong.

The degree of contact that employees of a business unit had with headquarters personnel was a reflection of a number of factors. The presence of a regional headquarters, even though in some cases (Thailand, Malaysia and Singapore) it was only three to four hours less flying time away than Excelsior's UK based corporate headquarters, meant that for most managers in the region it was relative easy to visit corporate managers to whom they reported, either directly or indirectly, and not particularly costly in terms of financial or time resources. In addition it was equally easy for regional headquarters based managers to visit business units in the region. The Excelsior General Manager for Risk in particular was a frequent visitor to all of the businesses in this study demonstrating his belief in the importance of personal contact with local employees.

Another factor was the relative importance of the region to the company. Excelsior's business in the Asia-Pacific region was considerably more important² to the overall company than was the case with Landmark. Two possible reasons why Landmark's Taiwanese joint venture manager's are not encouraged to visit the company's corporate headquarters are first, it is a large expense for a small business and second the business is not seen as important enough to warrant the expenditure of headquarters resources on meeting and offering training to managers. A third possibility is that due to the size of the business its profile is not high enough at corporate headquarters for it to be considered by most of the managers based there.

² In 2004 over 10% of Excelsior's operating profit came from the Asia-Pacific region. Landmark's Asia-Pacific operations are yet to make a profit (Source: 2004 Annual Reports)

Excelsior's Japanese subsidiary reported the worst record for managers visiting regional and corporate headquarters. This was probably due to the short time most of the managers had been employed by Excelsior (most of the business was newly acquired) and other management priorities principally integrating the business with the rest of the company.

Although headquarters managers tend to be very knowledgeable about the practice they are responsible for transferring their knowledge does not normally extend to the operating environments where it will function. This lack of understanding of the operating environment was a reflection of their training about and actual experience of these environments. For example, the Excelsior General Manager for Risk, in his role as gatekeeper, made a particular effort to develop personal relationships with the staff responsible for the risk functions at local business units but his actual knowledge of the environment they worked in was limited due to lack of training and the small amount of time he generally spent in most countries. The majority of other Excelsior headquarters managers spent even less time visiting the countries where the company's subsidiaries and joint ventures were based communicating most frequently by Email.

This lack of understanding of the features of the context into which the RBSIC was being transferred by both headquarters and the gatekeeper increased the likelihood of casual ambiguity occurring making it more difficult for them to identify difficulties in the practice transfer.

On occasions when business unit managers disagreed about the level of understanding of the local operating environment by headquarters this was normally as a result of their relationships with individual headquarters managers. If the headquarters manager they most frequently dealt with had demonstrated an understanding of the local operating environment, and communicated this to them, they were more likely to view overall headquarters understanding of the operating environment positively.

Relationship building is particularly important in Asian countries with their emphasis on high context communication that requires the development of relatively long lasting relationships (Hall, 1976) that will enable local managers to effectively communicate with headquarters based managers. The opposite was often the case, a number of managers stated that communication tended to be brief, impersonal, lacking explanation or an understanding of the local environment making the transfer of a practice more difficult.

The number of businesses newly acquired by Excelsior also meant that in many cases headquarters managers had not yet had time to develop an appreciation of the business and its operating environment.

11.2.0 Role of the Gatekeeper

The transfer of new practices frequently requires a gatekeeper, who stands between the source of the knowledge and the recipient unit, to supply the recipient with the knowledge regarding the practice. The gatekeeper role is to ensure that knowledge is transferred in an understandable form and to monitor its institutionalisation (Cohen &

Levinthal, 1990: 132) The effectiveness of the gatekeeper influences the ease or difficulty of intra-company communication and, in turn, the level of a business unit's absorptive capacity. However, even though the role of the gatekeeper can be very important, his, her or their, absorptive capacity does not constitute the absorptive capacity of the recipient business unit (Cohen & Levinthal, 1990: 132) it should complement and add to the existing absorptive capacity that is derived from the absorptive capacity of the business unit's individual members.

The role of the gatekeeper at Excelsior is undertaken by the regional RBSIC team and especially the General Manager for Risk. A similar position does not exist at Landmark where the majority of work relating to the RBSIC is undertaken at corporate headquarters.

An effective gatekeeper should be able to reduce the tensions that develop between the source of the knowledge and recipient units relating to the transfer and institutionalisation of the RBSIC. The regional RBSIC team's position as gatekeeper was regarded positively and accepted by all of the business units.

The Regional Finance Director described his relationship with the regional RBSIC team as *"I have a good positive relationship with them...they own the practice and do their job well....they clearly have a passion for what they are doing."* Similar positive comments were made by a number of other managers including the Finance Manager of Excelsior's China subsidiary who said that he had always found the regional RBSIC team to be a reliable and credible source of information who *"demonstrated considerable patience with the business when it has problems"*. This

view was shared by the managers of Excelsior's Hong Kong joint venture who added that the RBSIC team were very approachable and responsive to their needs. Although the General Manager did add that he would find it useful if he were able to get a more regional perspective on the practice. The Senior Finance Director of Excelsior's Thai subsidiary said that he worked closely with the regional RBSIC team and appreciated the interest they showed in the institutionalisation of the RBSIC in the Thai business adding that the relationship had improved considerably, following the subsidiary's acquisition, as the two sides had got to know "*who is who*". The Finance Manager of Excelsior's Malaysian subsidiary also acknowledged the assistance he had received from the regional RBSIC team commenting on the high quality of the information they had provided.

The only comments with slightly negative connotations were by the Finance Director of Excelsior's Australia subsidiary who remarked: "*I have a good relationship as much as anything due to my proximity to the risk team*³. However, it would be better if I was able to make some time for it (the RBSIC)" and the Finance Manager of Excelsior's Singapore subsidiary who remarked that sometimes there are problems caused by a general lack of understanding, although a recent presentation by the Business Continuity Manager had helped.

The principal source of knowledge relating to the RBSIC for the regional RBSIC team was corporate headquarters with whom they believed they had a good relationship. Both managers said that if they had any problems with the practice they would know who to approach at corporate headquarters and would expect to receive

³ The Finance Director and the Asia-Pacific RBSIC are based on the same floor.

assistance whenever it was required. The General Manager for Risk added the he had always found corporate headquarters to be a knowledgeable and trustworthy source of knowledge regarding the RBSIC although he would find more information on the measures that should be taken to mitigate risk useful. This was supported by his deputy who had more experience of regularly contacting UK based personnel.

The only other source of knowledge mentioned by managers was the Finance Manager of Excelsior's Chinese subsidiary who had provided information about the RBSIC to the Hong Kong joint venture's Accountant⁴.

Although the positive relationship between the regional RBSIC team and local business units should encourage the development of trust between the two parties, facilitating the transfer of knowledge between them, the heavy reliance on the RBSIC team, especially the General Manager for Risk, given his limited knowledge of the features of the local context to which the RBSIC was being transferred, could have some negative implications for the institutionalisation of the practice.

Firstly, business units may become over reliant on the regional team expecting assistance to be available at all times. This could reduce the motivation of business units to develop the necessary understanding of the RBSIC required for the institutionalisation of the practice

Secondly, although perceiving the RBSIC team as a credible source of knowledge has positive implications for the transfer it could also result in business units

⁴ The Excelsior China subsidiary is also the Greater China sub-regional headquarters with whom the Accountant has a reporting line.

unquestioningly accepting everything they are told by the RBSIC team, thereby, discouraging them from critical thinking about the practice with the possibility that they will fail to develop an appreciation of its full potential.

Thirdly, the RBSIC team are in a very powerful position regarding the transfer of the RBSIC as they, to a large extent, are able to determine the type of knowledge transferred. This power could be misused, either intentionally or unintentionally, if the RBSIC team only transfer knowledge that they deem to be suitable for the business units. This may be because the RBSIC team fears losing ownership of the practice to the business units, thereby, reducing its importance and status as the sole source of knowledge of the RBSIC or that they believe the business units lack the ability to fully understand the practice. In either case it could retard the institutionalisation of the RBSIC.

This research suggests that the first scenario has occurred and there is a possibility that the other two could occur. Given that Excelsior has a stated objective of devolving ownership of the risk database to individual business units⁵ it needs to take action to rectify this situation. While ensuring that the relationship between the regional RBSIC team and the individual business units remains strong, measures should be put in place, to encourage business units to reduce their dependency on the RBSIC team. This could be done by making the institutionalisation of the RBSIC one of the business unit manager's key objectives. This would have the added benefit of increasing the profile of the RBSIC throughout the business increasing awareness among all employees of the practice.

⁵ Source: Interview with the Director Business Risk Management.

11.3.0 Knowledge Retention

Should managers fail to retain knowledge about the RBSIC it will only be possible for business units to institutionalise the practice if they rely on continued assistance from outside the business, and even then, the absence of internal retention process will make the institutionalisation of the RBSIC extremely difficult.

Differences of opinion existed among the Excelsior managers regarding the ability of business units to retain the knowledge transferred about the RBSIC. The General Manager for Risk was confident the business could retain the knowledge without support from the UK unless the RBSIC changed when further transfers of knowledge would be necessary. The majority of business unit level managers, while believing it would be possible to retain the knowledge, regarded ongoing support from the regional RBSIC team as essential. In addition the Legal Manager of the Japanese subsidiary emphasised the importance of internal documentation to retain knowledge about the practice. Similar comments were made by the Singapore subsidiary management team and the Hong Kong joint venture management team who went on to complain about the absence of a RBSIC procedures manual that they believed would make knowledge retention much easier. The Managing Director of the Thai subsidiary was clear that continued support from the regional RBSIC team would be welcome. While the Senior Finance Director was more optimistic saying: *“Once we understand the practice we will not need ongoing support”*

The Finance Director of the Australian subsidiary said that he did not do a lot to retain knowledge of the RBSIC as it was always possible to draw on the expertise of the

regional RBSIC team who were also responsible for the RBSIC in Australia. The Finance Manager of the Chinese subsidiary did not believe retention of knowledge would provide any difficulties as “*there was not much knowledge to retain*”.

However, he did acknowledge that more training would make it easier to replicate.

The Finance Manager of the Malaysian subsidiary was concerned that high staff turnover and a lack of documentation would make knowledge retention difficult.

Although, this should be mitigated by his continuing responsibility for the practice and ongoing support from the regional RBSIC team.

Most of the Excelsior businesses were keen, whenever possible, for the same people to be involved with the RBSIC over a lengthy period. The majority of managers also thought it was important for each business to appoint a manager with special responsibility for the RBSIC (this had already been done in most cases). The exception being the Regional Finance Director, who was opposed to the idea, believing that individuals should be encouraged to take responsibility for their own parts of the business and the Finance Director of the Australian subsidiary who admitted he had not given very much consideration to appointing an individual to be responsible for the practice over the long term especially as this task was presently being undertaken by the General Manager for Risk who was likely to remain in that position for sometime.

In Taiwan the Managing Director (Landmark) admitted that he had not given very much thought to the mechanics of institutionalising the RBSIC and had not decided if a single member of staff would be responsible for the practice or departmental heads. He did acknowledge that ultimately the responsibility would be his.

11.4.0 Conclusion

The perception of the majority of Excelsior and Landmark business unit managers that headquarters managers lack an understanding of local operating environments (see Chapter 5) has a number of implications for their respective companies. In particular the gap in understanding between the two sides is likely to increase the level of causal ambiguity and the probability of an arduous relationship developing as both parties perceive the operations of local businesses in a different fashion.

Business unit managers may find it hard to trust the headquarters' managers asking them to institutionalise a new practice, if they feel they do not understand the local operating environment.

All of the Excelsior business units expressed their satisfaction with the regional RBSIC team. The three most likely reasons for this were that the regional RBSIC team was seen as both reliable and knowledgeable; they (especially the General Manager for Risk) were willing to make themselves available to assist local managers and were generally sympathetic towards any problems they had; and their assistance reduced the call on scarce resources at the business unit that may be required if the RBSIC team could not provide them with support.

This research questions the effectiveness of the support provided. Business unit managers commented that it would be possible to retain the knowledge transferred only if they continued to receive ongoing support from the regional RBSIC team. Reliance on the regional RBSIC team seems in most cases to be regarded as a substitute for retaining knowledge about the RBSIC. Rather than developing the

capacity to undertake the practice and retain the knowledge most business units appear to believe that they will be able to rely on the regional RBSIC team to provide them with whatever assistance they require whenever they need it. As long as the regional RBSIC team is seen as a resource, that can be called upon to assist business units in the identification and preparation of data for the RBSIC database, local business units are less likely to be motivated to develop the capacity to retain this knowledge.

Furthermore, if the practice is only undertaken annually there is a lower probability retentive capacity will be developed than when a practice is used on a regular basis becoming one of the business unit's normal management practices. In addition the failure to provide business units with sufficient documentation regarding the RBSIC is likely to further restrict the development of retentive capacity.

The next chapter, the conclusion, will summarise the research and discuss the key themes that have emerged from this study.

CONCLUSIONS

12.0.0 Introduction

The purpose of this research was to develop an understanding of the transfer of a corporate governance practice, the RBSIC, from two UK MNEs to their subsidiaries and joint ventures in the Asia-Pacific region. Research was guided by the following four questions:

1. To what extent has a risk based system of internal control that follows the recommendations contained in the Turnbull guidelines been institutionalised in the Asia-Pacific based subsidiaries and joint ventures of two UK listed companies?
2. What are the main difficulties, if any, encountered during the transfer of the practice?
3. If so, what are the key variables influencing the successful transfer of the practice?
4. What are the practical implications of this research?

This chapter commences with a summary of the research, followed by a discussion of the key themes emerging from the study. The next section considers the practical implications of the findings both at the firm level and from the perspective of the

convergence of national corporate governance systems. It goes on to discuss the contribution of the research to the study of corporate governance. The final sections review the limitations of the study, make suggestions for future research and end the thesis with some concluding comments.

12.1.0 Summary of Research Study

This research uses the theoretical framework described in Chapter 3 to identify the key variables in the implementation, internalisation and institutionalisation of a RBSIC in the Asia-Pacific subsidiaries and joint ventures of two UK companies. It considers the practice to be transferred – the RBSIC, the context in which the transfer occurs and the factors that are likely to influence the difficulty / or ease of practice transfer.

The research initially took place at the UK corporate headquarters of three companies – Excelsior, Landmark and Peninsula. Following Peninsula's withdrawal from the project, data collection in the Asia-Pacific region was limited to Excelsior and Landmark personnel, and the Bangkok based Finance Director of the Thai division of a UK company who shared his experiences relating to corporate governance issues and ethical behaviour with the researcher. Upon his return to the UK, in addition to follow-up interviews with Excelsior and Landmark personnel, the researcher interviewed the European Head of Corporate Governance for a leading United States based international bank and Nigel Turnbull, Chairman of the ICAEW who were responsible for publishing *Guidance on Internal Control: Guidance for Directors on the Combined Code* more commonly known as the Turnbull Report or guidelines.

Semi-structured interviews were used as the principle method of data collection with 41 informants interviewed on 38 separate occasions in the UK and Asia-Pacific region using questions developed around the central themes of the theoretical framework introduced in Chapter 3.

Through the combination of the interviews and documentation provided by the companies two case studies were developed – one main case study, consisting of eight embedded case studies (Yin, 2003: 39 – 46) – Excelsior; and a supporting case study consisting of two embedded case studies – Landmark. Each case begins with a brief description of the company followed by a review of the operation of the RBSIC in the company. The remainder of the case describes each of the Asia-Pacific business units that make up the embedded case studies including data relating to non-practice specific learning, change and innovation, certain aspects of its relationship¹ with headquarters² and the operation of the RBSIC in the business unit.

A cross case analysis of the data, overlaid with data collected at the Excelsior and Landmark corporate headquarters, the two meetings at Peninsula's corporate headquarters and individual interviews with people not directly connected with the case studies, was then undertaken with the objective of discovering any patterns and emergent issues (Ritchie & Spencer, 1993: 179 – 180). This led to the identification of five key variables in the implementation, internalisation and institutionalisation of the RBSIC in individual business units. Following a broad statement of the findings of this research, and an introductory discussion of how these variables relate to the

¹ Primarily degree of dependence and headquarters understanding of the local operating environment

² Corporate headquarters for both Landmark and Excelsior Asia-Pacific headquarters and corporate and regional headquarters for the other Excelsior business units.

theoretical framework introduced in Chapter 3, the five variables were analysed and discussed in separate chapters.

Although the RBSIC for Landmark's Taiwanese joint venture was undertaken by a risk facilitator based in the UK with limited local involvement by senior managers, and the Hong Kong based joint venture had been recently established, data relating to the context within which the transfer of the RBSIC would occur was comparable to the contextual data provided by the Excelsior business units. In addition data was also available from the Landmark business units concerning many of the variables that were likely to influence the difficulty of the practice transfer, that were related to the practice itself³.

12.2.0 Discussion of Main Findings

The over-arching conclusion of this research is that the transfer of the RBSIC seems beset by difficulties and a consequent lack of institutionalisation at the business unit level. As described in Chapter 6, the RBSIC has failed to become part of the 'normal' operating practices of the business unit. The term ceremonial adoption (with lower levels of implementation than suggested by Kostova and Roth, 2002) is used to characterise this process and the key variables which underpin this are described in the following sections. Here, we reflect upon the findings of this study in the wider context of organisation theory. We do this because the current findings resonate with a number of key themes in organisation theory, which may indicate that the transfer of corporate governance practices seem little different from more general features of

³ In these cases Landmark managers were able to express their opinions regarding the variables likely to influence the degree of difficulty involved in the implementation of the RBSIC despite not yet implementing the practice in their business unit.

knowledge transfer in organisational and inter-organisational relations. Two theoretical constructs stand out – *inertia* on the part of the business unit coupled with *embedded routines* which preclude the institutionalization of the RBSIC.

Inertia concerns the problems of communicating and transferring knowledge (and capabilities) both within and between organisations (Teece, 1997; Zander and Kogut, 1995). Inertia acts as a barrier to transfer. Miller (1990) argues that there are a number of ways in which inertia can arise, ranging from power and politics to deeply embedded organisational routines which resist change over time (Greenwood and Hinings, 1988). In many respects, this range of actions (and inactions) can be seen in the present study. For example, the perceived lack of dependency of the business unit on corporate headquarters resulted in a degree of autonomy for the business unit, allowing its managers choices over the extent to which they implemented and internalised the RBSIC. Whether this is a function of business units exercising their power base, or is a result of the complexity of the RBSIC is not known, although Zander and Kogut (1995) in a study of Swedish organisations conclude that only easily understood knowledge lent itself to rapid and easy transfer within and between organisations. This would lead us to conclude that the transfer of complex knowledge, such as the RBSIC is likely to result in inertia. However, Todorova and Durisin (2007) point out that the inability of an organisation to institutionalize (or assimilate) new knowledge and processes is primarily a function of its existing cognitive and normative structures which conforms to the Greenwood and Hinings (1988) idea of embedded and unchanging routines.

Yet the ‘weak ties’ (Granovetter, 1973) which are evident between business units and corporate headquarters also seem to predispose managers in the business units to keep the transfer at least at arm’s length and (at most) as a power base from which to resist corporate headquarters decisions. In this respect, the ‘strength of weak ties’ (to quote Granovetter⁴) lies not in the social linkages between different groups (such as between corporate headquarters and the business unit) but as a basis for the exercise of power by business unit managers. These are indeed ‘weak ties’ but not in the sense implied by Granovetter. How does this power base accrue to the business units?

The data would indicate that business unit managers build their power base by key actions (or dispositions) and that these, in turn, hinder the transfer of the RBSIC.

Primarily, they treat the RBSIC as an operational, rather than a strategic construct.

From the data in this research, it seems that such a decision is a conscious one and, as a result, the RBSIC is put on the ‘back burner’ as arguably more strategic decisions gain managerial attention. Whilst this may not be a direct influence over the non-institutionalisation of the practice, treating the RBSIC as operational has important consequences which in turn preclude its adoption. It creates a cognitive and normative context in the business unit whereby the RBSIC is viewed as relatively unimportant and is something imposed at arm’s length by corporate headquarters.

This creates what Feldman (2000) calls *embedded routines*. These are actions (or inactions) which develop in an organisation in a context of selective pressures. These become learned responses over time and act as powerful barriers to the adoption of

⁴ Granovetter (1973: 1376) found that weak ties are more likely to link members of different groups (e.g. Headquarters and subsidiaries) than are strong ones which tend to be concentrated within particular groups. They are relationships that transcend local relationship boundaries both socially and geographically.

new practices (or the development of new knowledge). Routines can act as constraining influences since they are the inherited decision rules which accrue over time and are perceived to underlie the survival of the organisation in a changing and sometimes hostile environment. They are sources of stability but also inflexibility. The RBSIC, perceived as both imposed (by corporate headquarters) and novel (to the business unit) had little chance of being adopted from the perspective of embedded routines.

Unlike Granovetter's social weak ties, there is no reciprocity between corporate headquarters and the business unit. Corporate headquarters demands the business unit implement the RBSIC, but they receive nothing or little in return for doing so. The incentive is one-way traffic. So the potential strength of weak ties is lost (Granovetter argued that reciprocity is key to strength in inter-organisational relationships).

Reciprocity is precluded by a number of factors apparent from the data. There is multiple ambiguity illustrated by, for example, the failure to understand the specific characteristics of the recipient business unit (on the part of corporate headquarters) coupled with different understandings of the RBSIC at the business unit level of analysis (each displaying a varying degree of understanding). Neither the business unit nor corporate headquarters seems to be working to the same base of codified knowledge.

Finally, the data reveal what Cyert and March (1963) regarded as something of a general organisational pathology – namely 'sequential attention' to goals and 'problemistic' search. What Cyert and March argued to be general features of organisation, are revealed in the current data as specifically also being the case in

dealing with the transfer of the RBSIC. Managers in business units routinely relegated the RBSIC to being an annual reporting exercise and they only paid attention to RBSIC related issues when they became important (as in the need to report annually to corporate headquarters). As Weick (1995) argued, managers only pay attention to an issue once it becomes a problem. Managers 'enact' their environment and, to a large extent, what becomes viewed as important is precisely that (and only that) which is perceived as important at the time. A clear finding from the current data was that the RBSIC became an important issue at annual reporting time and was relegated to backstage once the annual reporting season was over.

The above discussion shows that what began here as a *specific* investigation into the transfer of practices, reflects very strongly more *general* features of behaviour within and between organisations. Even ceremonial adoption itself has been argued to be a general feature in many aspects of organisational life (including such factors as token democracy and participation alongside token involvement and influence in key decisions and organisational activities). However, some aspects of the current research do seem relatively more specific. In the next section we discuss the theoretical framework sub-variables that played an important role in the ceremonial adoption of the RBSIC.

12.3.0 Key Theoretical Framework Sub-Variables

The transnational transfer of the RBSIC from a UK based corporate headquarters to its Asia-Pacific business units inevitably means that country level factors as well as organisational and individual factors will play an important role in the transfer of the

practice. The RBSIC was developed by a UK based corporate headquarters heavily influenced by the *regulatory, cognitive* and *normative* institutions that make up its country institutional profile (CIP) (Kostova (1999) (see 3.5.1). The RBSIC reflects the Turnbull guidelines and the Combined Code on Corporate Governance (regulatory institutions), the shared social knowledge that people have regarding risk based systems of internal control (cognitive institutions) and the beliefs, values and social norms related to risk based systems of internal control (normative institutions). This research has found, as proposed by Kostova (1999: 316), that the successful transfer of the practice is negatively associated with the differences in the CIP of the recipient and source of the RBSIC. These differences (e.g. perceptions of risk and attitudes to risk management at the local business unit) to varying degrees affect the three practice specific sub-variables – *causal ambiguity*, *practice specific absorptive capacity* and *motivation sub-variable of characteristics of the practice recipient* – that were identified as relatively more important than the others included in the framework for the analysis of the implementation and internalisation of a Turnbull based system of internal control in the Asia-Pacific subsidiaries and joint ventures of UK listed companies (see 6.4.0). On a number of occasions these sub-variables interacted with other less important sub-variables of the theoretical framework.

Causal ambiguity is a measure of depth (Szulanski, 2003: 37) or completeness (Bohn, 1994) of understanding about the RBSIC and the context in which it is to be institutionalised. This research has found that when Excelsior introduced the RBSIC into its Asia-Pacific business units it did not function as expected by corporate headquarters. This in part was a consequence of the source of the knowledge's lack of an understanding of the idiosyncratic features of the new context in which the

RBSIC was being transferred and how they interact. This was particularly evident regarding local attitudes to risk, identification of risk and risk management. Possible reasons for this were the limited amount of time spent at local business units by source managers whose main medium of communication with local managers was Email and that when they did spend time in recipient countries their efforts were directed towards specific issues that precluded the development of a more general understanding of the local operating environment. This suggests the possibility of an *arduous relationship* (a sub-variable of relational context) between the source and the recipient making the transfer of the RBSIC and its institutionalisation more difficult.

Causal ambiguity also existed among recipient business units who lacked a consistent understanding of the purpose and operation of the RBSIC, and its role in the corporate governance of the company. This in part was a reflection of limited training and the absence of documentation (e.g. a procedures manual) about the practice.

In both cases causal ambiguity will have been increased by differences in the CIP of the source and recipient business unit.

Absorptive capacity exists at two levels – general and RBSIC specific. Business units were found to be generally supportive of learning, change and innovation with little evidence of the existence of the not-invented-here syndrome suggesting high levels of general non-specific absorptive capacity. However, practice specific absorptive capacity relating to the RBSIC was clearly lacking this was due to a number of factors:

A business unit's absorptive capacity is conceptualised and measured not only in terms of the recipient's ability to apply new knowledge but also to draw on outside expertise (Szulanski, 2003: 70). The inadequate explanation of the practice by the source reduced the RBSIC specific absorptive capacity of the recipient unit decreasing the likelihood of the successful transfer of the practice.

Although there was some disagreement among business units about the availability of sufficient resources to institutionalise the RBSIC, thereby decreasing practice specific absorptive capacity, absorptive capacity is largely a function of prior related knowledge. In the majority of business units knowledge about systems of internal control and specifically risk based systems of internal control was largely absent increasing the need to build-up awareness and develop understanding about the RBSIC. The absence of documentation and training about the practice played a key role retarding the development of RBSIC specific absorptive capacity. In addition, reflected in the regulatory institutions of a country's CIP, the importance of risk management in corporate governance is generally not appreciated by the Asia-Pacific countries included in this study (Roche, 2005: 14)⁵ rarely playing a role in the operating practices and procedures of local companies. Given that the majority of local business unit employees had previously worked for local companies prior related knowledge about risk-based systems of internal control among employees was limited further reducing a business unit's RBSIC specific absorptive capacity.

Business unit's RBSIC specific absorptive capacity was also reduced by the inconsistency between the values and norms associated with RBSIC that were

⁵ The exception being Australia

representative of a UK based MNE and the norms and values of the recipient business units⁶ that were a reflection of the cognitive and normative institutions of their respective CIPs. The greater the differences in the cognitive and normative institutions of the source and the recipient country the harder it will be for recipient unit employees to understand the practice and relate it to their values and norms, thereby, reducing a business unit's absorptive capacity. If this is the case, the need will be greater for support from the source in the form of resources, training and appropriate documentation. As discussed above this was lacking at both Excelsior and Landmark.

Motivation levels at the practice recipient to institutionalise the RBSIC were reduced by the perceived lack of importance attached to the institutionalisation of the practice by the source of the RBSIC. The higher the perceived importance attached to transfer of a practice by headquarters, the greater the motivation at the recipient and the more likely a new practice will be successfully implemented (Björkman, Barner-Rasmussen, and Li, 2004: 450).

Another de-motivating factor among Excelsior business units, that had not been discussed in the theoretical framework, involved the gatekeeper role of the Excelsior General Manager for Risk (see 12.4.0). Rather than developing the capacity to institutionalise the RBSIC most managers were content to rely upon the General Manager for Risk to provide them with assistance whenever it was required. In this case a business unit's motivation was reduced because it did not see the need to develop the necessary understanding and skills required to institutionalise the RBSIC.

⁶ The exception being Australia

The sub-variables *trust* and *perceived credibility* were important when considering the role to the gatekeeper in the motivation of the recipient business unit and the eventual ceremonial adoption of the RBSIC and will be discussed in next section.

Other RBSIC specific sub-variables that were related to the motivation of the recipient unit to institutionalise the RBSIC were *dependency* and *unprovenness*.

Overall, business unit employees did not feel their advancement in their respective organisations was dependent on the institutionalisation of the RBSIC nor were they convinced that the practice enabled their business to operate more effectively.

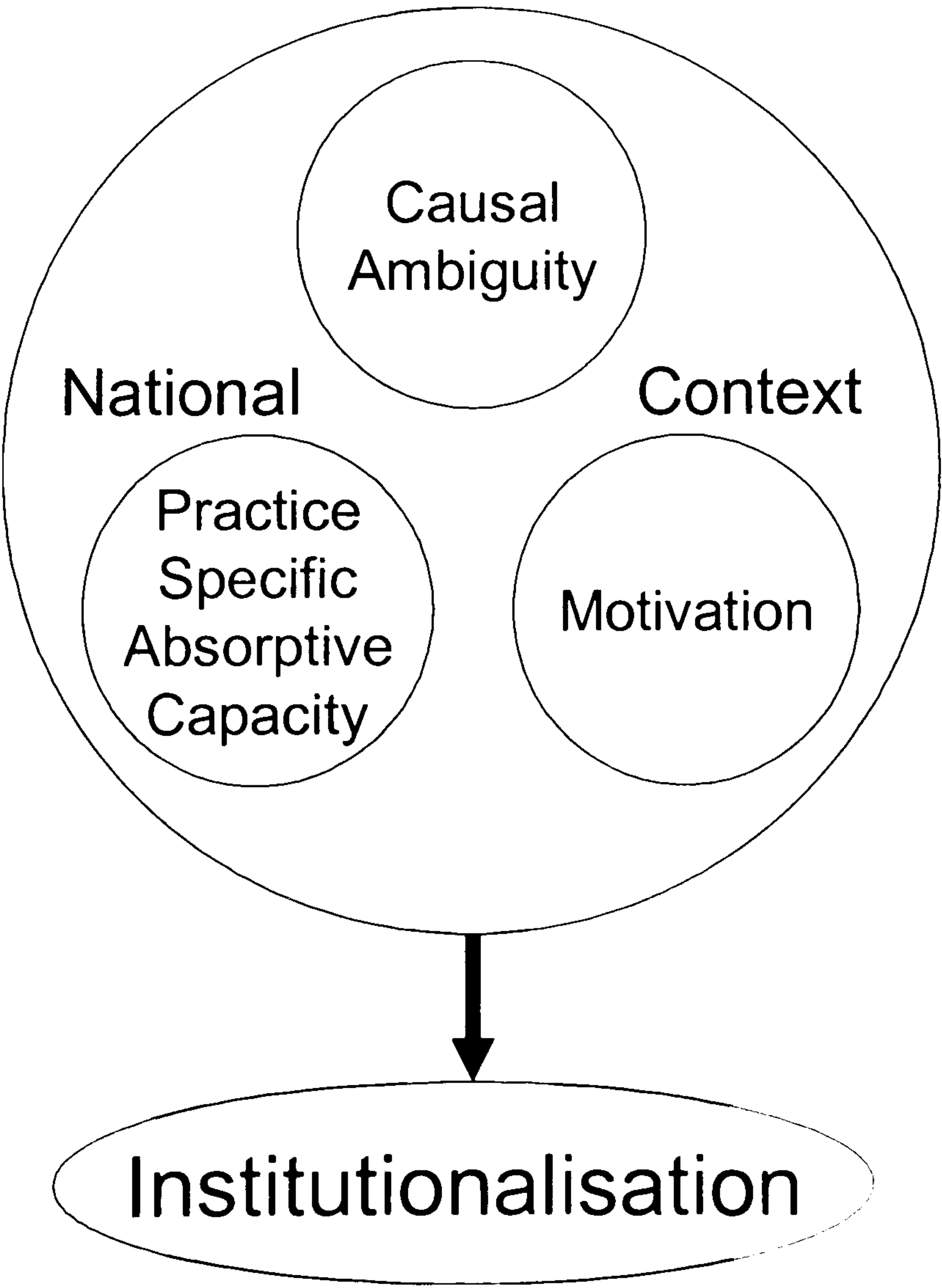
Once again differences in the CIP between the recipient and the source played a role in the extent to which a business unit was motivated to institutionalise the RBSIC. If it was perceived as inconsistent with the local CIP it was likely to de-motivate the recipient unit.

Two sub-variables were not identified by informants as playing an important role in the ceremonial adoption of the RBSIC – *organisational compatibility* and *identification with the parent*. Organisational compatibility, reflecting the structures of the parent and recipient, were not highlighted by any of the respondents. This is probably because the operating structures of local business units with regard to relating to the parent are largely imposed upon them by their parent and generally accepted as necessary for the effective management of a MNE. The need to identify with parent was not expressed by any informant supporting the view that business units believed they operated in a largely autonomous fashion.

The successful institutionalisation of the RBSIC resides primarily in the individual employees at the recipient business unit. However, the transfer is embedded inside a specific national context consisting of the three components of a country's CPI which interact, to differing degrees depending on the distance between the source and the recipient's CPI, with the three practice specific sub-variables identified above as the most important in the ceremonial adoption of the practice. The individual employee needs to both implement and internalise the RBSIC if it is to be successfully institutionalised and this can be achieved only by overcoming the barriers to institutionalisation represented by the national context and the three practice specific variables embedded within it. To summarise, the following figure (Figure 12.0) can be drawn to represent the key variables in the institutionalisation of the RBSIC.

Figure 12.0

Key Variables in the Institutionalisation of the RBSIC



12.4.0 Role of the Gatekeeper

An unexpected finding of this research involves the Excelsior General Manager for Risk and his role as the gatekeeper standing between the source of the knowledge (corporate headquarters) and the recipient (Asia-Pacific business units) facilitating the transfer of knowledge from the source to the recipient.

Knowledge exploitation requires the sharing of relevant knowledge among members of the company (Spender, 1996) in order to promote mutual understanding and comprehension (Garvin, 1993). The gatekeeper can provide a formal mechanism to facilitate the sharing and eventual exploitation of knowledge (Zahra and George, 2002) by distributing information within the company, in this case from the parent company to its Asia-Pacific business units, as well as gathering information about the practice being transferred and the degree to which it has been institutionalised.

The Excelsior General Manager for Risk, in his role of gatekeeper, had a prominent role in the institutionalisation of the RBSIC at the company's Asia-Pacific business units. His skill at building and sustaining relationships with managers at individual business units was clearly evident. Demonstrating the importance of the *trust* sub-variable of the relational context and the *perceived credibility* sub-variable of the characteristics of the source of the practice. He was uniformly seen as a knowledgeable and trustworthy figure that could be relied upon to provide any assistance that a business unit may require relating to the RBSIC. In this respect he clearly played a positive role in the institutionalisation of the practice. However, an unintended consequence of the level of support he was prepared to provide to

business units was their over reliance on his services to a degree that it reduced their levels of motivation to institutionalise the practice in their business unit. Rather than developing the capacity to undertake the practice, and retain the knowledge, most business units appear to believe that they will be able to rely on the regional RBSIC team to provide them with whatever assistance they require whenever they need it.

The role of Excelsior General Manager for Risk and his deputy has played a crucial role in the introduction of the RBSIC in the region. He has served as a valuable conduit for the transfer of information about the practice. This has been especially important given the lack of documentation about the RBSIC that was believed⁷ to be available to business units. However, this research has found that he is now an impediment to the institutionalisation of the practice, unintentionally retarding the development and retention of knowledge relating to the RBSIC in individual business units, discouraging local managers from increasing their involvement in the practice and taking more responsibility for the RBSIC.

The emergence of the gatekeeper role as central reflects a number of studies which provide empirical support for its centrality (e.g. Pettigrew, 1973). In Pettigrew's study of a retail store undergoing the purchase of information systems technology, Kenny is the gatekeeper. He liaises with suppliers of the technology and simultaneously provides information about the technology to the rest of the organisation. This role has an inbuilt duality of information supply and information restriction, since Kenny was able to persuade key decision makers in the retail store to purchase the system he favoured himself, rather than the best value or even the most

⁷ Neither the regional RBSIC team or any of the individual business units were aware of the existence of the company's website dedicated to the RBSIC.

effective system. In a similar vein, the Excelsior General Manager for Risk facilitated both knowledge transfer and its restriction across the organisation. The organisation became dependent upon his knowledge. Built in to that dependence there exists a power relationship in which the gatekeeper can intentionally restrict knowledge flows (Pettigrew, 1973), or unintentionally restrict them (as in the current case). One key implication from this finding is that the role of the gatekeeper has been under-explored in knowledge or practice transfer processes. It is, of course, seen as a critical role more generally in organisation theory but has not been specifically examined as a key influence in knowledge or practice transfer. The results of the current research suggest the centrality of gatekeeper roles – at least in this particular case.

12.5.0 Practical Implications

12.5.1 Firm Level

The UK Combined Code requires the boards of UK listed companies to disclose that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company, that it has been in place for the year under review and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the board and accords with the guidance in the Turnbull guidelines (Turnbull, para. 35). This disclosure appears in the company's annual report. Both Excelsior and Landmark are able to make this claim. However, the findings of the research suggest that although a Turnbull based system of internal control has been partially implemented in both companies it has not been institutionalized and neither company

are deriving the maximum benefit from the practice. This may have implications for the companies in the future given remarks by the Financial Services Authority, the UK's financial regulator, who suggested that auditors should be required to review a company's internal risk controls (Financial Times, 24/5/04). Depending on the expectations of the auditors, both companies may have difficulties reaching the required standard, leading to potentially embarrassing disclosures that may undermine their respective share prices.

The RBSIC is based on the core assumption that a business unit understands the type and extent of its key risks in sufficient detail to be able to identify, assess and manage them effectively. This research has revealed two important inconsistencies regarding this assumption. First, there are considerable variations in informants' attitudes to risk, not only between national business units but also on an intra office basis. Less senior managers' generally view risk from their own local rationality and do not consider risks beyond their immediate area of responsibility. This has led to considerable differences in manager's perceptions of risk.

Secondly, this research has found a number of managers lacked the skills to identify risks, and those that claimed to have the necessary skills did not undertake the function in a consistent manner. This was very much a reflection of the lack of training managers had received relating to the RBSIC. This is of considerable importance because the first stage of the RBSIC is the identification and prioritisation of risk. Should this task be undertaken in a suboptimal fashion then the whole practice will be devalued and possibly rendered valueless.

Overall, Asia-Pacific based informants understanding of the RBSIC is insufficient for them to maximise the benefits the practice could provide to their business unit.

Both companies will need to take action to raise awareness of the practice inside their companies if they intend to embed risk management systems at all levels of a company's hierarchy. In Excelsior's case the perception of the RBSIC needs to be changed so that it is no longer regarded as an annual task, that is not ongoing, making embedding very difficult. While, Landmark needs to ensure that a similar message is imparted to its Asia-Pacific business units when the responsibility for the RBSIC is passed to local personnel. This will require both companies to make a far greater commitment to training employees than is presently the case. Training should clearly explain how to undertake the RBSIC, the reasons business units are being asked to undertake the task and the benefits that can be derived from it. Specific attention should be paid to explaining how to identify risks, and what is meant by risks so as to counter local differences in the appreciation and identification of risk (see 2.6.0). The training should be accompanied by procedures manuals that can provide business units with a comprehensive reference source relating to the RBSIC. Furthermore, business units will need to be provided with sufficient resources to undertake the task, especially if it is to be embedded in the day-to-day operations of the business. A greater effort is also required to explain and communicate ethical values. The failure to institutionalise an effective ethics policy leaves a company open to reputational risk. In addition if such a policy is adapted for local market, as in the case of Landmark's Taiwanese joint venture, it must still meet expectations of UK regulators and investors.

As well as providing training more will need to be done by both companies to motivate business units to institutionalise the RBSIC. As commented by Nigel Turnbull⁸ if the practice is owned by the CEO it sends a message about its importance. Managers are more likely to be motivated if they regard the institutionalisation of the RBSIC as a priority. This could be signalled by the appointment of a board level executive as the 'Champion' for the practice. An example of this approach can be found at Bank of America, where Ken Lewis, the Chairman and Chief Executive Officer, became the 'Champion' for the institutionalisation of the Six Sigma method, a customer-focused data-driven process, used to reduce errors throughout the company's operations (Financial Times, 1/3/05). His presence at training courses targeted at relatively junior managers, as a participant not a speaker, demonstrated to all employees the importance the bank was attaching to the practice. Another advantage of appointing a high profile 'Champion' for the RBSIC should be the increased awareness of the practice throughout the company. This was supported by the Excelsior Group Audit Manager responsible for the international implementation of the RBSIC who commented that there was not enough high level support from the company's senior management for the practice and the main board had not issued a direct command to all of the business units to comply with the RBSIC. Furthermore there was no requirement for a business unit's Chief Executive / Managing Director and Finance Directors to sign off that they have carried out the practice as part of the annual business plan they agree with group. Similar comments regarding senior management support for the practice were made by Landmark informants.

⁸ Interviewed on 25/2 05.

Other methods that could be introduced to motivate employees include linking institutionalisation with some kind of reward structure – career advancement, additional resources for the business units, financial rewards, etc. However, as stated above there is the potential for such an initiative to encourage ceremonial adoption.

The degree to which a business unit is able to retain knowledge is also likely to be negatively related to the degree of support provided by headquarters. Business units are more likely to retain knowledge if they develop an understanding of the practice through regular use, regard it as value adding and do not look for headquarters based personnel to constantly advise them or undertake the required work on their behalf. This final point is particularly evident among Excelsior's business units, where over reliance on the regional RBSIC team, who among other tasks enter risks identified by individual business units into the company's risk database, has reduced local responsibility for the RBSIC to a level that discourages business units from taking the measures necessary to institutionalise the practice.

A failure to institutionalize the RBSIC could have a number of practical implications for a company. If it is expanding rapidly, especially into markets where it has limited experience, it will need to monitor and control the risks it is taking and be able to transmit this information, where appropriate, to the board of directors. A failure to identify risks could result in serious financial or reputational losses to the company leading a substantial drop in shareholder value and possible changes in both management and ownership.

In addition should a company be identified as having insufficient internal controls it may be reflected in a lower stock price than would be expected given its earnings. it may find it harder to list the company on other stock exchanges and / or raise funds on the international capital markets. Once again this could leave the company open to a change in ownership and / or result in pressure for a change in senior management.

12.5.2 Convergence of National Corporate Governance Systems

The findings of this research, although considering a specific aspect of corporate governance, suggest that the convergence of national corporate governance practices is unlikely in the near term and that such a shift would require considerable effort at both the firm and government level. The reform of corporate governance is largely a domestic matter, linked to democratic reform and institutional change at the widest level (Kang, forthcoming) and although pressures to improve corporate governance standards (see 2.5.0) were found throughout the region, in most cases, change has been slow and, with the exception of Australia, standards are still behind those found in the UK.

The divergence in attitudes to risk has already been discussed earlier (see 12.3.0). Another important area of divergence concerns whistleblowers. As discussed in section 7.2.3, most Asian societies display an aversion to expressing views or attitudes which are not in line with often unwritten, social codes. Loyalty and obedience are valued, authority flows down the organisation. There is a tendency to follow orders rather than assume responsibility. Employees are frequently acutely aware of their position in the corporate hierarchy and have no wish to stand out or

disrupt the organisation's harmony. This will make the task of establishing a system to encourage whistleblowers, a key component of the RBSIC far more difficult, even if some form of protection is written into legislation.

Ethics are another area of divergence. In the US and Europe, if a business practice is legal it is generally considered to be ethical in business terms. In Asia, the concept of 'face' can take the place of law. Face is based on largely informal communal values and mutual respect and in simple terms operates on the basis that colleagues should not let each other down. Face can cause enormous problems. It leads to cover ups and lies as everyone tries to preserve face rather than admit to a mistake or concede there is a problem. This can lead to communications difficulties inside an organisation with 'bad' news not reaching senior managers as managers, lower in the hierarchy, fail to acknowledge or report unethical activities in their organisation because by doing so they will lose 'face' or cause other managers to do so.

The ethics policies of Excelsior and Landmark reflect the norms and values of the UK. These differ to varying degrees with the norms and values prevalent in the Asia-Pacific countries in the study (see Chapter 7). In line with findings of Sethi (2003) this research has found that managers often do not understand relevant ethical policies or take them seriously. As long as this remains the case the likelihood of a single ethics policy becoming institutionalised across the company remains remote. If a business unit that is subordinate to its parent company fails to institutionalise an ethics policy, mandated by its headquarters, it suggests that the likelihood of a single approach to ethics being adopted across national borders, that will become an important part an international code of corporate governance, is also unlikely.

A fourth issue is that of transparency. The countries in this study, with the exception of Australia, do not have a culture of transparency. There is no natural inclination towards openness either in government or the corporate sector. Corporate governance by its very nature is adversarial – it is about challenge and accountability. If everyone is to preserve face then harmony has to be maintained, open criticism is best avoided making proper investigation very difficult. Furthermore, because of the hierarchical nature of their organisations with their clearly defined levels of responsibility, Asian managers are more likely than their Western equivalents to regard externally imposed checks and balances as an affront that is a challenge to their authority. This is particularly the case when a company is family owned and managed. In this case a manager may adopt the approach – *'it is my company and how I manage it is none of your business'* – even when a large part of the company is owned by outsiders. If managers have this mindset it is highly unlikely that they will feel comfortable acknowledging risks and providing information to shareholders and regulators about a company's performance.

Fifthly, as discussed in section 2.4.2 enforcement of corporate governance regulations is rarely seen as a priority by local governments (once again the exception is Australia). Only the wealthiest of Asia's governments can afford to enforce compliance by local companies and in these cases, while the resources may exist, the will may not. Government and business leaders are often closely linked reducing the likelihood of a legal dispute, at least in public. Throughout this study informants regularly questioned whether there was a real desire among companies and government to see the enforcement of a strong corporate governance regulatory environment.

Returning to the potential outcomes of convergence suggested by Guillén (2000) this study has found that it is unlikely in the foreseeable future that corporate governance in the countries that make up this study, with the exception of Australia, will converge on the outsider dominated Anglo-Saxon model. As suggested by Branson (2001) the 'one size fits all' approach to corporate governance does not allow for the value systems present in the recipient countries and this combined with the perceived lack of political will to change makes the adoption of an Anglo-Saxon system of corporate governance, and therefore convergence with the UK and USA, unlikely in the foreseeable future. There is a greater possibility of a hybrid model that combines features of both the outsider and insider models being adopted. Whether such a system would find favour in countries that presently operate an Anglo-Saxon model of corporate governance is outside the remit of this research. However, based on recent trends in corporate governance in both the UK and USA, this seems unlikely. As discussed in section 2.5.0, local companies, with an overseas stock market listing in countries that have adopted an Anglo-Saxon approach to corporate governance, will be required to move towards the Anglo-Saxon corporate governance model and pressures for similar action are likely to influence companies hoping to borrow money on the international capital markets. However, these pressures are unlikely to influence the majority of local companies, who are unlikely to require the services of these markets, once again reducing the likelihood of convergence towards one global corporate governance system.

Given the specific nature of this research it is difficult to draw any conclusions regarding attempts to reform corporate governance in the Asia-Pacific region generally. However, despite all of the countries in this study, with the exception of

Japan, referring to the importance of risk management in their corporate governance guidelines⁹, these findings suggest that institutionalisation of risk management practices in companies throughout the region, with the exception of Australia, will be difficult to achieve.

12.6.0 Contributions of the Current Research to the Study of Governance

The main contributions of the current research are three-fold. Specifically they focus on corporate governance practices below board level; the transfer of corporate governance practices across international borders; and the role of managerial agency.

Despite catastrophic failures that have resulted from the actions of employees below the senior management level, e.g. Nick Leeson at Barings Bank, to-date corporate governance research has been concentrated almost exclusively on top management teams, CEOs and boards of directors (Alvarez and Svejnova, 2005:3). This research broadens the debate to consider the institutionalisation of corporate governance practices below the top management level. It reveals the important roles played by senior managers as facilitators or as blockages to policy made at board level. Hence, implementation rather than formulation gains primacy. For example, the board and the senior management team may decide on how the company is going undertake the corporate governance practices expected by its regulatory authority but it is the *enactment* of these practices that will ultimately determine their institutionalisation (or not).

⁹ Only Australia provides detailed guidance on the implementation of a risk management process

The transfer of corporate governance practices from UK listed companies to their business units and joint ventures has had (to date) little theoretical and empirical work to inform organisational theory. There are isolated studies (Buck & Tull, 2000; Buck & Shahrin, 2005) concerning the transfer of corporate governance practices from one country to another. However, they do not consider the internal transfer of a corporate governance practice from a company's headquarters to its international subsidiaries and joint ventures. This research suggests key factors that enable research to focus on the implementation, internalisation and institutionalisation of a corporate governance practice in overseas business units.

By combining context, which includes the regulatory component of social context relating to corporate governance, and practice into the same theoretical framework the current research provides a more comprehensive understanding of the factors influencing the transfer of a corporate governance practice, which should be useful to both academics and practitioners. The data have highlighted the importance of voluntarism in practice transfer. Transfer depends to a great extent on the willingness, ability and motivation of managers rather than the influences of external forces (determinism). Practice transfer is certainly regarded as a strategic choice by business unit managers, but this is modified by factors such as trade offs and judgements over whether or not (or to what extent) to adopt the practice across the business unit. Decision makers are exercising voluntaristic choices which impact with immediacy and potency upon implementation. The theoretical implications of these findings emphasise both the importance of strategic decision making in practice transfer, but also the centrality of organisational context in shaping and influencing

the scope and extent of any transfer. Human agency and organisational context are inter-woven in ways which shape and influence the process.

The role of double and multiple agency also impacts on the institutionalisation of a corporate governance practice. A key assumption of governance literature is that the board of directors, who have been appointed by the company's owners, have the capacity to ensure that managers function in the best interests of shareholders (Child & Rodrigues, 2003: 339). This relationship is complicated when the management of a company involves two sets or more of control relationships – double / multiple agency. In this research this occurs at the corporate headquarters and at the Asia-Pacific business unit levels.

These key findings raise two important points for discussion. The first concerns the relative power of managerial agency with regard to context in any explanation of knowledge transfer when the findings indicate both context and managerial agency act as influences. In the broadest terms, of course, this discussion re-visits the well worn tracks of the voluntarism-determinism debates. Taking the more focused lens of the current research, however, reveals managerial agency to be a more powerful influence over practice transfer than context (national or organizational). That is not to say that context bears little influence – it does – but the key stumbling blocks in transfer and the key drivers of ceremonial adoption emanate from managers themselves. Agency matters most. As many organization theorists have highlighted, this research also emphasizes that it is what managers do (or don't do) that matters and is what impacts greatly on the characteristics and extent of adoption processes.

In this respect, the current findings mirror the theoretical approach of *enactment* proposed by Weick (1995).

Yet the data also suggest some elements of *structuration* may also be at play (Giddens, 1991). Giddens's theory of structuration argues that organized life is more than individual enactment, but is also not merely determined by social forces. Instead, Giddens suggests, human agency and context (social structure) are in a relationship with each other, and it is the repetition of the acts of individual agents which reproduces the structure. This means that there is a social structure – comprising traditions, institutions, moral codes, and established ways of doing things; but it also means that these can be changed if individuals start to ignore them, replace them, or reproduce them differently. There is a duality of structures in organizations – on one side there are situated actors who undertake social action and interaction, and enter into knowledgeable activities in various situations. At the same time, social systems and structures (context) form the rules, resources, and social relationships that actors produce and reproduce through social interaction. Structuration means studying the ways in which these social systems are produced and reproduced in social interaction. In the current research, we see the potency of agency in maintaining the social system of the business unit. Such maintenance was embodied in managerial practices of (for example) treating the RBSIC as operational and as only important when annual reporting time came around. The context this produced created a powerful influence against both change and practice transfer despite the apparent power of HQ to impose the RBSIC on the business unit.

12.7.0 Limitations of the Study

The research design, methods and methodology for this research are not without limitations. The difficulties that can arise when using semi-structured interviews have been identified in section 4.4.1. A number of criticisms of case studies have also been made. They have been described as subjective because the case report¹⁰ is a representation of the case and is dependent on the information volunteered, and the researcher decides what to include in the case study which almost certainly be less than was learned. However, it is this subjectivity which is an essential element of understanding and without it the case would lack the necessary focus.

Concerns have also been voiced about their lack of external validity and generalisability. This problem has been addressed in this research through the use of one main case study, containing eight embedded case studies and one smaller supporting cases containing two embedded cases. However, the generalisability of findings to sectors and countries other than those Excelsior and Landmark are operating in, should be taken with caution. The context-specific perceptions of informants may not be directly applicable to other companies.

Research involving corporate governance presents a unique set of problems that are unlikely to be present when analysing the transfer of other organisational practices. Subjectivity could not be avoided as the reasons for the RBSIC and its overall position in a company's corporate governance framework had to be explained by the researcher to nearly all of the interviewees. Furthermore, as discussed in Chapter 1

¹⁰ A case study is both a process of inquiry about the case and the product of the inquiry which is known as the case report.

the choice of the RBSIC as the focus of this research potentially biases the thesis in two ways: Firstly, business units are located in national contexts and have different cognitive, normative and regulatory institutions regarding corporate governance than the source of the practice increasing the likelihood of the rejection of the RBSIC.

These are reflected, to varying degrees, in the lower priority attached to corporate governance in recipient countries, and particularly relevant to this research, the lack of emphasis on risk management¹¹. Secondly, as discussed in pages 3 – 5 the RBSIC could be argued to be costly, leading to unnecessary ‘red-tape’, that reduces a company’s ability to act quickly and that the ‘market’ is the best regulator of a company and a managers’ behaviour. This study embraces a voluntaristic perspective in which governance structures and processes (including the RBSIC) are argued to make a difference to the effectiveness and survival of all parts of the organisation and is a value adding practice (see page 5). Given this assumption the potential for bias exists due to the researcher imposing his own reference on the interviews when questions are asked and answers are interpreted (Easterby-Smith et al., 2002:93). However, despite the potential biases discussed above interviews were in depth and rich enough to allow informants to reveal and develop data which indicated that bias appeared not to be a dominant factor. Furthermore, the data indicated informants were self-aware of a potential bias in the research and interviews were conducted within this context.

Cross-cultural differences were also apparent with some informants more reluctant to discuss the practice openly in case they revealed their lack of knowledge possibly ‘losing face’. Similarly, some informants may have been more likely to criticise the

¹¹ The exception being Australia

practice than others who may have seen criticism as an indication of disloyalty, or lack of faith in their immediate superiors, business unit or the company as a whole. However, constant reassurance that the objective of the research was not to reveal the interviewees shortcomings, combined with a promise of anonymity, enabled these issues to be largely overcome. The length of the interviews also provided the opportunity for the researcher to develop more of a relationship with the interviewees than may have been the case otherwise.

Managers may not have been prepared to admit to the researcher, who they had not met previously, their concerns that the local culture would inhibit the successful institutionalisation of the RBSIC fearing this may give a negative impression of their managerial ability and, despite promises of confidentiality regarding individual responses, be reported back to corporate headquarters' based senior management potentially damaging their career prospects.

Two relationships that warrant consideration are the size of the MNE and the level of institutionalisation achieved and the business sector the MNE operates in and the level of institutionalisation achieved. Given the scope of this project this was not possible in this thesis.

12.8.0 Suggestions for Future Research

Gummeson (2000: 25) described gaining access as the researcher's number one problem. This is certainly the case with research that considers the extent to which a company is complying with the relevant corporate governance frameworks.

Companies are very reluctant to share any information relating to their corporate

governance practices beyond the limited statements made in their annual reports and this may hinder further research which is needed to consider the role of corporate governance practices below board level. However, hopefully this research will offer a theoretical framework that can be used to consider the international transfer of corporate governance practices beyond a risk based system of internal control. Of particular interest would be the introduction of practices relating to the Sarbanes-Oxley Act in non-United States companies. This differs from the transfer of a Turnbull based internal control system in that it is mandated by United States law therefore increasing the importance of the regulatory component of the theoretical framework.

Also related to the Sarbanes-Oxley Act valuable research could be undertaken to consider differences in the institutionalisation of the features of the Sarbanes-Oxley Act and the Turnbull guidelines in companies with dual stock market listings that are required to institutionalise both US and UK systems of corporate governance. This could also provide an opportunity to research into differences in institutionalisation patterns between practices that are required by law or recommended in codes.

This research identified a number of practice and non-practice factors in the transfer of a practice that are worthy of further investigation these included the transfer of ethics policies across international borders, approaches to training employees in national settings that are different from the country where a practice was designed, the role of 'gatekeepers' in the international transfer of a strategic practice and methods of communicating organisational practices, such as the RBSIC, from the headquarters of a MNE to its international business units.

Further research is also needed into the degree that variables identified as playing a role in the institutionalisation of a corporate governance practice interact with each other.

Regarding ceremonial adoption research into the relative importance of practice specific and national context factors, and how it differs depending on the practice being transferred, would also offer a valuable insight into the reasons for ceremonial adoption.

The emphasis of the research was on corporate governance practices below the board level. Building on the findings of this research it would be of interest to develop an understanding of how the board uses the data gathered through the RBSIC in a strategic decision making context. Another area of interest, outside of the immediate issues discussed in this thesis, would be an investigation into how the attitudes to risk and risk management practices will influence corporate governance reform in the region and the likelihood of a global convergence of corporate governance systems.

Briefly, some other research questions raised by this research that warrant further investigation include: Can an unfavourable context be overcome by extensive practice specific training and if so how should this be undertaken? To what extent does the practice being transferred affect the model? Would this framework provide useful data if the practice had little or no regulatory role? Does it make a difference if the practice being introduced is new to the business unit or replacing an existing practice that was designed for a similar purpose? This may be particularly relevant if the practice being replaced was designed by the local business and is being replaced

by a practice designed at the corporate headquarters reflecting the national culture of that country.

12.9.0 Concluding Comments

This thesis has contributed to our understanding of the institutionalisation of a corporate governance practice, in the Asia-Pacific subsidiaries of a UK headquartered MNE, through the analysis of difficult to obtain unique data about a topic that has previously received little academic attention. Through a theoretical framework, that combines both context and practice, it has found that the RBSIC has been formally adopted by local business units, without their believing in its real value to the organisation. The practice has been implemented (to a relatively low level) but not internalised and, therefore, not institutionalised. This has led to the ceremonial adoption of the practice by individual business units and the failure of the RBSIC to become part of their normal management and governance processes and be embedded in the operations of the company, forming part of its culture, as recommended by the Turnbull guidelines (1999: para. 22). In addition to findings that are specific to the international transfer of corporate governance practices (See 12.3.0) the findings resonate with a number of key themes found in organisational theory (See 12.2.0) reflecting very strongly more general features of behaviour within and between organisations.

Although, as presumed in Chapter 1, context, especially national context, played a key role in the institutionalisation of the RBSIC this research found that factors likely to influence the difficulty of the institutionalisation of the knowledge related to the

practice were more important, particularly causal ambiguity, practice specific absorptive capacity and the motivation of the recipient business unit. However, it should be noted, as stated in section 3.4.0, context and practice are interrelated and cannot be considered in isolation when seeking a complete understanding of the factors influencing the likelihood of the successful institutionalisation of a practice.

As always in studies of this nature the data revealed factors, which while important, did not appear to fit with the theoretical framework or assumed a greater importance than expected. In this particular study the major factor that fits this description was the role of the gatekeeper (see 12.4.0) in which practice transfer can simultaneously be facilitated and restricted (intentionally or unintentionally).

To conclude, in June 2005 the Turnbull Review Group, who had been tasked with updating the Turnbull guidelines, published *Review of the Turnbull Guidance on Internal Control: Proposals for Updating the Guidance*. The report based on evidence gathered¹² found a strong degree of consistency of opinion on main issues, with the overwhelming view of respondents being that the Turnbull guidance had been a notable success. The evidence suggested that the guidance had contributed to a better understanding of risk and improvement in internal control (Para. 1.4). One of the respondents, the Institute of Chartered Secretaries and Administrators said that the guidance is largely considered as “*the most effective piece of corporate governance guidance to have appeared in the UK over the last 10 years or so*” (Turnbull Review Group, 2005(b): 2).

¹² Evidence was gathered from listed companies representing 56% of the London Stock Exchange's main market, from institutional investors that between them were responsible for funds under management in excess of £2,350 billion, from representative bodies and from most of the major accounting firms.

This research while acknowledging the role of the Turnbull guidance in raising the profile of risk management in companies' questions whether the practice has been as successful as suggested above, especially with regard to the international institutionalisation of the guidelines. The Turnbull Review Group based on the supporting documents released, appeared to pay little attention to this topic with the only comment referring to international institutionalisation in the 83 page *Evidence Paper* saying:

"A number of respondents noted that implementing the guidance is not an overnight exercise, particularly in complex international groups. Cultural issues need to be addressed as well as technical problems."

(Turnbull Review Group, 2005(b): 15)

This raises the possibility of complacency developing among regulators and companies regarding standards of risk management and internal control.

Furthermore, the lack of comment regarding companies' international business units is also somewhat surprising given the prominent role of UK companies in the global business environment where only the USA and Japan have more companies represented in the list of 500 largest companies in the world measured in both revenues (Fortune 500, 2006¹³) and stock market capitalisation (Financial Times, 9/5/2006).

¹³ Fortune 500 Website http://money.cnn.com/magazines/fortune/global500/2006/full_list

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Appendix 1

HOFSTEDE’S FIVE DIMENSIONS

Table A1

	Power Distance Index	Individualism Index	Masculinity Index	Uncertainty Avoidance Index	Long- Term Orientation
Great Britain	35 (63)*	89 (3)	66 (11)	35 (66)	25 (32)
Australia	36 (62)	90 (2)	61 (20)	51 (55)	31 (25)
Japan	54 (49)	46 (33)	95 (2)	92 (11)	80 (4)
Peoples Republic of China	80 (12)	20 (56)	66 (11)	30 (68)	118 (1)
Hong Kong	68 (27)	25 (53)	57 (25)	29 (70)	96 (2)
Taiwan	58 (43)	17 (64)	45 (43)	69 (39)	87 (3)
Thailand	64 (34)	20 (56)	34 (64)	64 (44)	56 (9)
Malaysia	104 (1)	26 (52)	50 (34)	36 (65)	N/A
Singapore	74 (19)	20 (56)	48 (38)	8 (74)	48 (11)
Number of countries	74	74	74	74	39

*Actual score (ranking against other countries)

Appendix 2

DOCUMENTS GIVEN TO THE RESEARCHER DURING THE FIRST UK MEETING WITH EXCELSIORS HEAD OF GROUP AUDIT

1. An overview of Excelsior's business risk policy
2. A number of presentation documents used to explain the RBSIC when it was introduced.
3. An outline of the types of risk the business may confront (also given to business units when introducing the RBSIC).
4. An example of the output from the computer based system that records all of the risks once they have been identified.
5. A copy of the company's ethical policy that he believed had been given to all employees worldwide.

INTERVIEW GUIDE

(Unseen by Interviewee)

Social Context

1. What do you mean by risk? Is it a good or bad thing?
2. Do you feel the Turnbull guidelines are consistent with the assumptions and cultural values of your own country? Are they appropriate for your national setting?
3. How close is your own regulatory environment to that of the UK?
4. How sensitive to cultural differences was the implementation process?
5. Is your business unit's approach to management and corporate governance consistent with the national environment?
6. What do you feel are the company's ethical values? Have they been clearly communicated to you and are they relevant to your operating environment?
7. Are the values implied in the Turnbull process consistent with the values of your business unit's organisational culture? What would be the local attitude to 'whistle blowing'?

Organisational Context

1. How long has your business unit existed?
2. Do you feel your organisational culture is supportive of learning, change and innovation? Is this still the case if they are driven by forces outside the business unit?
3. How effective do you feel internal communication is inside your business unit and the group?
4. Do you feel you have the opportunity to communicate to senior management any concerns you may have?
5. How often do you get asked to implement new practices by the regional and global HQ?

6. How would you describe your business unit's previous system of internal control?

Relational Context

1. How would you describe your business unit's organisational structure? Do you feel you are part of one organisation or relatively independent? To what extent are you dependent on HQ? Do you or your colleagues spend very much time at your global / regional HQs?
2. Do you believe that HQ understands the differences in your operating environment and their own?
3. How would you describe your relationship with HQ?
4. Do you feel the successful implementation of the RBSIC is important to your advancement in the company?

Practice Transferred

1. Have you ever heard of the Turnbull guidelines? Are you aware of the regulatory importance of the practice?
2. Do you feel that you understand the reasons for the RBSIC and what is expected of you?
3. Do you feel enough was done to relate the RBSIC with your needs and explain the benefits to you?
4. Do you feel that the formal description of what you are expected to do differs from what actually happens?
5. Do you find the RBSIC of value in identifying opportunities?

Source of Practice

1. How effective is the flow of information concerning the RBSIC from HQ?
2. What type of relationship have you had with the team involved with the introduction of the RBSIC?
3. Do you know who can help you if you have a problem and who are the right people inside your business unit to be involved in the RBSIC?

4. How important do you believe the successful institutionalisation of the RBSIC is to your regional HQ and global HQ?
5. Do you feel HQ is sufficiently motivated to assist you in undertaking the RBSIC?
6. Do you feel the source of the knowledge is credible, knowledgeable and trustworthy?

Practice Recipient

1. Do you feel you have the necessary knowledge to undertake and benefit from the RBSIC?
2. Have you received sufficient training and what additional training would you find of value? To what extent was the RBSIC documented?
3. Do you feel sufficient resources have been devoted to the transfer of the RBSIC (funding and time)? Have you needed to take on extra staff? To what extent are 'ex-pats' used?
4. Do you find the requirements onerous? Has it been a time consuming process?
5. How do you go about identifying risk?
6. What do you consider has been the most difficult part of implementing (transferring) the RBSIC to your BU? Is it related to the task itself or the environment it is being undertaken in?
7. How effective is internal communication with regard to the RBSIC?
8. How similar is the RBSIC to previous risk management systems you have used?
9. Do you feel the value of the RBSIC has been proven?
10. What motivates you to undertake the RBSIC?
11. Do you know who is accountable for risk identification and management?
12. Do you see the RBSIC as ongoing or something to be done periodically? Does the periodic nature of the RBSIC make embedding difficult?
13. Are the same staff involved in the RBSIC each time it is undertaken, what is done to retain knowledge of the practice within your business unit?
14. Do you feel able to retain the knowledge or will you need continuing support from HQ?
15. Will you have an individual responsible for the RBSIC over the long term?

16. Do you expect the RBSIC to become embedded in your business unit? How deeply embedded is it now? What has been done to achieve this?
17. How do you feel most members of staff regard the RBSIC? Is every member of the business unit aware they have a responsibility for risk management? How deep does the consultation process go when identifying risks?
18. How great has senior management support been for the task?
19. What is done to ensure the RBSIC is working effectively?
20. How often is the system 'formally' reviewed and how do you review the risks identified?
21. Who has responsibility for monitoring and making sure the system is working effectively? How quickly do you feel it identifies risk and how quickly are they reported to management and action taken?
22. What is the value of the RBSIC or is it just a bureaucratic exercise?
23. Is the company operating in a more effective manner?

Additional Comments

1. Is there anything else you would like to say about the RBSIC?

Appendix 4

EMAIL FROM THE RESEARCHER TO THE EXCELSIOR HEAD OF GROUP AUDIT

Hi ****,

I am sorry if I was a bit 'bleary-eyed' during our conversation last night I had already been asleep for an hour when you called.

As requested I have enclosed below a copy of the Email I sent to **** (General Manager of Risk for Asia-Pacific) on 27/1/04 concerning my visits to Excelsior's Asia-Pacific operations. I have also attached two of the documents that were with the Email:

1. The outline of my research project
2. Research Objectives (includes the list of offices I would like to visit and the nature of the research I wish to undertake)

In addition I have attached the letter I wrote to **** (Finance Director) after he agreed to help me with my research. This is the document you had when we first met that was also sent to **** (General Manager of Risk for Asia-Pacific) on the 7/12/03.

I have not attach a copy of the separate CV I sent to **** (General Manager of Risk for Asia-Pacific) on 27/1/04 as this is the same as the one included in the letter to **** (Finance Director).

With regard to the *Research Objectives* document, on reflection I appreciate I may have caused some confusion. In the sentence:

Where possible my intention would be to meet with 3 – 6 individuals (or more if deemed appropriate) in each office.....

I should have written if deemed appropriate by the local office. By this I mean if they feel it is important for me to meet with more than six people so that I can get a greater understanding of the local risk management process then I will. However, for the purposes of valid research, it should not be necessary to go beyond 3 - 6 interviews, and I do not intend to unless requested to do so.

With regard to the offices to be visited this list was taken from the document headed *Asia-Pacific Regional Leadership Team* that you gave to me when we met on 9/9/03.

You kindly marked on the document the offices covered by my research. As I mentioned last night I hope to make my visits during the March – May period. When I originally discussed my research plans with **** (General Manager of Risk for Asia-Pacific), just before Christmas, the plan was for me to visit Melbourne at the beginning of February (that is why I arrived in Singapore during the second week of January), however, two weeks ago **** (General Manager of Risk for Asia-Pacific) told me this was no longer possible as he would be out of the office for almost the whole month and we agreed to move the date to March. My proposed timetable for office visits, to be agreed with **** (General Manager of Risk for Asia-Pacific) when we met in March, is the following:

March – Australia & Japan

April – Hong Kong & China

May – Thailand & Malaysia

The visit to the Singapore office, for obvious reasons, can be done at any time that is mutually convenient. Finally, I would like to visit one other office (listed as to be discussed). Ideally this would be either the Philippines to be visited in April (as part of the Hong Kong & China Trip) or Indonesia to be visited in May (direct from Singapore). I am largely self funded and getting to Singapore, accommodation (a five month contract) and National University of Singapore fees have already cost me a substantial sum. For this reason I would like to travel in the most cost (and time) effective manner and believe this is achieved by the above schedule. A visit to India would be a last resort only if other offices were not possible.

The *Research Objectives* document states that interviews will be about two hours in length. Please change this to a maximum of two hours to allay any fears about me taking up too much time. I do not expect to need to speak to anybody more than once. Also I am not expecting interviewees to undertake substantial preparation for the meeting. These kinds of interviews tend to be more useful if they are not ‘over-structured’. In general, I would not expect a visit to an office to exceed two days with the possible exception of Australia where I may need more time.

The only other help I would probably want from the local office is with regard to accommodation. In most cases I would ask them to book me into a local reasonably

priced hotel, hopefully, one where they can get me a corporate rate. Of course I would pay for the hotel out of my own funds.

Finally, my request to meet **** (Chief Executive Asia-Pacific) is related to the conversation I had with **** (General Manager of Risk for Asia-Pacific), where I said if possible I would like the opportunity to discuss the risk management process with him, I then said if this is not an option, and I appreciate he is a very busy man, I would like to briefly meet him to thank him for his assistance with my research and also because he mentioned in his Email dated 22/10/03, when he agreed I could carry out my research, that he would welcome the chance to meet with me.

I hope this information is helpful. If you have any more questions do not hesitate to call me, even if it means waking me up!

Many thanks for your help with what is the key part of my PhD.

Regards

Derek

EXCELSIOR BUSINESS RISK PRESENTATION

1. Nature of Risk

This section of the presentation provided a number of definitions of risk, considered the general risk environment, the importance of accurate financial reporting and emphasised the benefits of early risk identification and its role in protecting the company's existing values.

2. Corporate Governance

This part of the presentation contained a brief explanation of the UK corporate governance framework for listed companies and a description of the Turnbull guidelines and how they fitted into this framework. It also outlined the Director's obligations¹ with regard to the Turnbull guidelines which included:

- Set appropriate policies for internal controls

¹ The internal control statement in Excelsior's annual report stated that the Directors have responsibility for the Group's system of internal control that covers all aspects of the business. In recognition of that responsibility the Directors set policies and seek regular assurance that the system of internal control is operating effectively. Strategic, commercial, operational and financial areas are all within the scope of these activities which also include the management of risks therein. In October, a consolidated summary of the most significant risks for the Group as a whole is reviewed by the Board of Directors.

Accordingly the Directors confirm that the system of internal control for the year has been reviewed in line with the criteria set out in the Guidance for Directors on the Combined Code "Internal Control" issued in September 1999.

- Obtain regular assurance of the effectiveness of the system of internal control
- Report annually on the system of internal control and identify corrective actions in the event of material failures.

3. Review of the Shortcomings of the Existing Risk Management System

This section of the presentation contained a review of the role of various departments (e.g. internal audit) in the existing risk management system and its shortcomings which included:

- Not all of the risks identified
- Lack of co-ordination
- No common methodology
- No standard reporting format / process
- Usually driven from the centre, often with an insurance focus
- Overall process short of corporate best practice

4. Review of the RBSIC

The aims of the RBSIC are:

- To assist in risk identification, especially risks that would prevent the business unit from achieving its key business objectives.
- To provide a structured template to record, analyse and collate business risks

- The creation of a complete record for the region that gives details of the risks faced by the business units, their scale, the strategy adopted to control the risk² and the assigning of accountability for managing the risk.
- Enable the development of business continuity plans should a business units operations be disrupted e.g. plant destroyed by fire.

5. Key Dates

- Quarterly – risk review
- August – business unit risk profile confirmed
- September – review and consolidation of risk profiles
- October – main board review
- December – inclusion in the annual report

6. Objectives of the RBSIC

- Provide a clear understanding of all business risks
- Become a core competence for managers
- Become an integral part of the business process
- Create a world class process which maximises value opportunities

² This could include *minimising* the risk – reducing the probability of its occurrence; *mitigating* the risk – determining the action to be taken if the risk materialises (this is often used in conjunction with minimising the risk); *transferring the risk* – commonly achieved by insuring against it moving the risk to a third party or outsourcing (contracting out) the task to a third party. (Blackburn, 2000: 9)